

**NATIONAL FLOOD INSURANCE PROGRAM**  
**WRITE YOUR OWN (WYO)**  
**ACCOUNTING TRAINING MANUAL**

**Sixth Printing**

**September 1, 1997**

# WYO ACCOUNTING TRAINING MANUAL

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- NOTE:** A DIAMOND (◆) INDICATES A REVISION AND/OR ADDITION TO THE PREVIOUSLY ISSUED WYO ACCOUNTING TRAINING MANUAL.

## PART A

### MONTHLY FINANCIAL STATEMENT PACKAGE REPORTING REQUIREMENTS

#### I. STATEMENTS REQUIRED

On a monthly basis, a WYO Company is required to submit the following financial documents:

##### A. **Financial Statements** (Contained in the WYO Accounting Procedures Manual)

- Exhibit I - Income Statement
- Exhibit II - Reconciliation of Payable/Receivable Balance
- Exhibit III - Balance Sheet Items
- Exhibit IV - Expense Allowance Calculation
- Exhibit V-A - Fee Schedule - Allocated LAE
- Exhibit V-B - Fee Schedule - Allocated LAE
- Exhibit V-C - Fee Schedule - Allocated LAE
- Exhibit V-D - Fee Schedule - Allocated LAE
- Exhibit V-E - Fee Schedule - Used for ICC Claims Only
- Exhibit VI - Other Loss and LAE Calculation
- Exhibit VII - Interest Income
- Exhibit VIII-A - Letter of Credit Drawdowns
- Exhibit VIII-B - Cash Payments to the NFIP
- Exhibit VIII-C - Credit Card Payments to the NFIP
- Exhibit IX - Restricted Account Deposits Summary

**NOTE:** Financial statements can be submitted either in hard copy or on diskette. Financial statements can also be transmitted electronically through the use of a Bulletin Board Service (BBS). For processing instructions on the use of a diskette or the BBS for monthly financial statement reporting, please refer to the *WYO Accounting Procedures Manual*.

**B. RECONCILIATION STATEMENTS** (Contained in the WYO Financial Control Plan)

- Monthly Reconciliation - Net Written Premiums
- Monthly Reconciliation - Net Federal Policy Fees
- Monthly Reconciliation - Net Paid Losses
- Monthly Reconciliation - Special Allocated LAE
- Monthly Reconciliation - Case Loss Reserve

**C. REPORTS CERTIFICATION STATEMENTS** (Contained in the WYO Financial Control Plan)

- Monthly Financial and Statistical Reconciliation Reports
- Monthly Statistical Transaction Report

**II. DUE DATES FOR REQUIRED FINANCIAL DOCUMENTS**

All monthly financial statements, reconciliation statements, and certification statements must be received by the NFIP Bureau and Statistical Agent no later than the last day of the calendar month following each month's closing.

**Example:** Financial statements for May's reporting period are to be received by the NFIP Bureau and Statistical Agent no later than June 30, 19XX.

**◆ III. WHERE TO SEND REQUIRED FINANCIAL DOCUMENTS**

The required financial documents and diskette (if used) should be sent to the following address:

National Flood Insurance Program  
Bureau & Statistical Agent  
10115 Senate Drive  
Lanham, MD 20706-1833  
ATTN: Bureau Accounting Manager

## PART B

### COMPLETION OF REQUIRED FINANCIAL STATEMENT PACKAGE DOCUMENTS

#### I. MONTHLY FINANCIAL STATEMENTS

As previously stated, the WYO Program requires the completion of certain accounting documents on a monthly basis. The following pages detail how each of the required documents should be completed. We start with the completion of the financial statements, then proceed to the financial/statistical reconciliation reports, and end with the completion of the certification statements.

To better demonstrate how to complete each required document, a fictitious WYO Company (Harwell) has been established. This Company is reporting financials for the second time. The next page gives "general, premium, claim, and financial" information for this fictitious WYO Company. This establishes the starting point for completing the required documents.

**NOTE:** In this narrative portion, all credit entries are shown in parentheses.

Following this information are samples of all the required documents, completed with figures representing data to be reported. Note that each line on these documents contains an identifier (for example, 1A, 2A, etc.). This line identifier corresponds to a subsequent narrative that describes what each figure represents and how it was developed. This method of presentation should greatly enhance your understanding of the Training Manual and lead to the proper completion of the required documents.

Now let us proceed to the actual completion of the required documents. Good luck!

**HARWELL COMPANY**  
**GENERAL INFORMATION**

- **Company is reporting financials for the second time.**
- **The expense allowance is 32.0 percent. (This percent is for illustrative purpose only.)**
- **Company deposits into the flood insurance restricted account are made on a daily basis.**
- **Company uses the credit card payment mechanism.**
- **Excess funds are transmitted at least weekly through the Automated Clearinghouse (ACH) mechanism.**
- **Fiscal year-to-date (FYTD) totals for appropriate Exhibits are developed by adding the current month's figure to the prior month's FYTD total.**

**PREMIUM INFORMATION**

<u>Data Given</u>	<u>Current Month</u>	<u>Prior Month</u>
Booked Net Written Premium	\$400,000	\$ 200,000
Booked Net Federal Policy Fees	\$ 30,000	\$ 15,000
Earned Premium	\$ 50,000	\$ 16,667
Ending Unearned Premium Reserve	\$533,333	\$ 183,333
Premium Not Booked (Suspense)	\$ 2,000	\$ 1,000

**CLAIM INFORMATION**

<u>Data Given</u>	<u>Current Month</u>	<u>Prior Month</u>
Claims Reported	4	2
Claims Paid and Closed	3	0
Claims Outstanding	3	2
Paid Loss Amounts	\$ 169,000	\$ 0
Salvage Collected	\$ 100	\$ 0
Special Allocated LAE	\$ 50	\$ 0
Ending Case Reserve	\$ 60,000	\$ 40,000

**FINANCIAL INFORMATION**

<u>Data Given</u>	<u>Current Month</u>	<u>Prior Month</u>
Premiums Collected in form of Check/Cash	\$400,980	\$ 201,000
Premiums Charged on Credit Card	\$ 1,200	\$ 0
Federal Policy Fees Collected in form of Check/Cash	\$ 29,910	\$ 15,000
Federal Policy Fees Charged on Credit Card	\$ 90	\$ 0
Cancellation Refunds	\$ 1,200	\$ 0
Excess Funds		
Total Transferred	\$122,596	\$ 145,680

**EXHIBIT I**  
**INCOME STATEMENT**

**1A** COMPANY (NAME) Harwell  
**1B** COMPANY (NUMBER) 25678  
**1C** PERIOD ENDING May/19XX

	<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<u>REVENUE</u>		
◆ <b>1D</b> 100. Net Written Premiums	<u>400,000</u>	<u>600,000</u>
<b>1E</b> 105. Change in Unearned Premium	<u>(350,000)</u>	<u>(533,333)</u>
<b>1F</b> 110. Earned Premium	<u>50,000</u>	<u>66,667</u>
<u>EXPENSES</u>		
<b>1G</b> 115. Net Paid Losses	<u>168,900</u>	<u>168,900</u>
<b>1H</b> 120. Allocated LAE (Line 500)	<u>5,160</u>	<u>5,160</u>
<b>1I</b> 125. Other Loss and LAE Items (Line 660)	<u>6,294</u>	<u>7,614</u>
<b>1J</b> 130. Change in Loss and LAE Reserves (Lines 325 through 340, Col. C)	<u>82,980</u>	<u>185,960</u>
<b>1K</b> 135. Net Loss and LAE Incurred	<u>263,334</u>	<u>367,634</u>
<b>1L</b> 140. Expense Allowance (Line 430)	<u>128,030</u> ◆	<u>192,030</u> ◆
<b>1M</b> 150. Miscellaneous Expense	<u>20</u>	<u>20</u>
<b>1N</b> 155. Total Expense	<u>391,384</u> ◆	<u>559,684</u> ◆
<b>1O</b> 160. Operating Income (Loss)	<u>(341,384)</u>	<u>(493,017)</u> ◆
<b>1P</b> 165. Interest Income (Line 710)	<u>- 0 -</u>	<u>- 0 -</u>
◆ <b>1Q</b> 170. Net Federal Policy Fees	<u>30,000</u> ◆	<u>45,000</u> ◆
◆ <b>1R</b> 175. Net Income (Loss)	<u>(311,384)</u> ◆	<u>(448,017)</u> ◆

**1S** PREPARER'S NAME Robert George  
**1T** PHONE NUMBER 111-111-1111

## EXHIBIT II

### RECONCILIATION OF PAYABLE/RECEIVABLE BALANCE

**2A** COMPANY (NAME) Harwell

**2B** COMPANY (NUMBER) 25678

**2C** PERIOD ENDING May/19XX

		<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<b>2D</b>	200. Beginning Payable/ Receivable Balance (Line 315, Col. B)	<u>(282,313)</u>	<u>- 0 -</u>
<b>2E</b>	205. Net Income (Loss) ◆(Line 175)	<u>(311,384)◆</u>	<u>(448,017)◆</u>
<b>2F</b>	210. LOC Funds Received (Line 800)	<u>- 0 -</u>	<u>- 0 -</u>
<b>2G</b>	215. Disbursements to NFIP (Line 805)	<u>(122,596)◆</u>	<u>(268,276)◆</u>
<b>2H</b>	220. Ending Payable/ Receivable Balance (Line 315, Col. A)	<u>(716,293)</u>	<u>(716,293)</u>



## EXHIBIT III

### BALANCE SHEET ITEMS

3A PERIOD ENDING     May/19XX    

	A	B	C	D
	CURRENT MONTH	PRIOR MONTH	INCREASE/ (DECREASE) (COL. A-B)	BEGINNING OF FISCAL YEAR
<b>3B</b> 300. Cash	<u>25,000</u>	<u>5,000</u>	<u>20,000</u>	<u>- 0 -</u>
<b>3C</b> 305. Cash - Not Transferred To Restricted Account*	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>
<b>3D</b> 310. Cash - Not Transferred From Restricted Account*	<u>(20,000)</u>	<u>- 0 -</u>	<u>(20,000)</u>	<u>- 0 -</u>
<b>3E</b> 315. Payable To (Receivable From) NFIP	<u>716,293</u>	<u>282,313</u>	<u>433,980</u>	<u>- 0 -</u>
<b>3F</b> 320. Unearned Premium Reserves	<u>(533,333)</u>	<u>(183,333)</u>	<u>(350,000)</u>	<u>- 0 -</u>
<b>3G</b> 325. Loss Reserves (Case)	<u>(60,000)</u>	<u>(40,000)</u>	<u>(20,000)</u>	<u>- 0 -</u>
<b>3H</b> 330. Loss Reserves (IBNR)	<u>(120,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>- 0 -</u>
<b>3I</b> 335. LAE Reserves - Case (Allocated)	<u>(700)</u>	<u>(300)</u>	<u>(400)</u>	<u>- 0 -</u>
<b>3J</b> 336. LAE Reserves - IBNR (Allocated)	<u>(1,300)</u>	<u>(700)</u>	<u>(600)</u>	<u>- 0 -</u>
<b>3K</b> 340. LAE Reserves (Unallocated)	<u>(3,960)</u>	<u>(1,980)</u>	<u>(1,980)</u>	<u>- 0 -</u>
<b>3L</b> 345. Premium Suspense (Under 60 Days Old)	<u>(2,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>- 0 -</u>
<b>3M</b> 346. Premium Suspense (60 Days And Older)*	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>
TOTAL	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>

Please show debits as positive numbers and bracket all credits. The columns must add to - 0 -.

\*Upon FEMA request, WYO Company must provide supporting aged detail for the reported balance. Companies will be notified when such a request is made.

◆EXHIBIT IV

EXPENSE ALLOWANCE CALCULATION

4A COMPANY (Name) Harwell  
 4B COMPANY (Number) 25678  
 4C PERIOD ENDING May/19XX

		<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<u>EXPENSE ALLOWANCE</u>			
◆4D	400.	Net Written Premium (Line 100)	<u>400,000</u> <u>600,000</u>
4E	405.	Expense Allowance %	<u>x 32.0%◆</u> <u>x 32.0%◆</u>
4F	410.	Expense Allowance for Written Premium	<u>128,000◆</u> <u>192,000◆</u>
4G	415.	Cancellation Premium Refund Adjustment Base	<u>200</u> <u>200</u>
	420.	Commission Allowance %	<u>15%</u> <u>15%</u>
4H	425.	Cancellation Commission Retention	<u>30</u> <u>30</u>
4I	426.	Expense Allowance Adjustment	<u>- 0 -</u> <u>- 0 -</u>
4J	427.	Rating Organization Expense	<u>- 0 -</u> <u>- 0 -</u>
4K	428.	State Sales Tax on Insurance Services	<u>- 0 - ◆</u> <u>- 0 - ◆</u>
4L	430.	Total Expense Allowance	<u>128,030◆</u> <u>192,030◆</u>

**EXHIBIT V-A**

**FEE SCHEDULE - ALLOCATED LAE**

**(USE FOR CLAIMS WITH LOSS DATE OF 9/30/90 AND PRIOR)**

COMPANY (NAME) Harwell  
 COMPANY (NUMBER) 25678  
 PERIOD ENDING May/19XX

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<b>ENTRY VALUE RANGE</b>	<b>NUMBER CLOSED</b>	<b>FEE</b>	<b>FEE'S PAID (COLS. B X C)</b>
Erroneous Assignment		\$ 40.00	
Closed Without Payment		70.00	
\$ .01 - \$ 200.00		70.00	
200.01 - 400.00		90.00	
400.01 - 600.00		110.00	
600.01 - 800.00		130.00	
800.01 - 1,000.00		150.00	
1,000.01 - 1,500.00		180.00	
1,500.01 - 2,000.00		200.00	
2,000.01 - 2,500.00		220.00	
2,500.01 - 3,000.00		240.00	
3,000.01 - 3,500.00		260.00	
3,500.01 - 4,000.00		280.00	
4,000.01 - 4,500.00		300.00	
4,500.01 - 5,000.00		320.00	
5,000.01 - 6,000.00		350.00	
6,000.01 - 7,000.00		370.00	
7,000.01 - 8,000.00		380.00	
8,000.01 - 9,000.00		400.00	
9,000.01 - 10,000.00		420.00	
10,000.01 - 15,000.00		460.00	
15,000.01 - 20,000.00		490.00	
20,000.01 - 25,000.00		520.00	
25,000.01 - 30,000.00		550.00	
30,000.01 - 35,000.00		580.00	
35,000.01 - 40,000.00		610.00	
40,000.01 - 45,000.00		640.00	
45,000.01 - 50,000.00		670.00	
50,000.01 - 75,000.00		800.00	
75,000.01 - 100,000.00		950.00	
100,000.01 - 125,000.00		1,100.00	
125,000.01 - 150,000.00		1,250.00	
150,000.01 - 175,000.00		1,400.00	
175,000.01 - 200,000.00		1,550.00	
200,000.01 to Limits		1,700.00	

500-A. \*Total Allocated LAE Fees Paid - Exhibit V-A

\*Upon FEMA request, WYO Company must provide supporting detail for the reported expense.

**EXHIBIT V-B**

**FEE SCHEDULE - ALLOCATED LAE**

**(USE FOR CLAIMS WITH LOSS DATE OF 10/1/90 TO 10/31/96)**

**5A PERIOD ENDING**     May/19XX    

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEES PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
MINIMUM FOR UPTON-JONES	_____	800.00	_____
\$ .01 - \$600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	550.00	_____
15,000.01 - 25,000.00	_____	600.00	_____
25,000.01 - 35,000.00	<u>1</u>	675.00	<u>675</u>
35,000.01 - 50,000.00	_____	750.00	_____
50,000.01 - 100,000.00	_____	1,000.00	_____
100,000.01 - 150,000.00	_____	1,300.00	_____
150,000.01 - 200,000.00	_____	1,600.00	_____
200,000.01 to Limits	_____	2,000.00	_____

Excess Mileage \_\_\_\_\_

**5B** 500-B. \*Total Allocated LAE Fees Paid-Exhibit V-B 675

\*Upon FEMA request, WYO Company must provide supporting detail for the reported expense.

◆EXHIBIT V-C

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 11/01/96 TO 04/30/97)

5D PERIOD ENDING May/19XX

A	B	C	D
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEE'S PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
MINIMUM FOR UPTON-JONES	_____	800.00	_____
\$ .01 - \$ 600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	550.00	_____
15,000.01 - 25,000.00	_____	600.00	_____
25,000.01 - 35,000.00	_____	675.00	_____
35,000.01 - 50,000.00	_____	750.00	_____
50,000.01 - 100,000.00	<u>1</u>	3.0%	<u>2,085</u>
100,000.01 - 250,000.00	_____	2.3%, BUT NOT LESS THAN \$3,000	_____
250,000.01 AND UP	_____	2.1%, BUT NOT LESS THAN \$5,750	_____

<b>5E</b>	500-C. *Total Allocated LAE Fees Paid - Exhibit V-C	<u>2,085</u>
	500-B *Total Allocated LAE Fees Paid - Exhibit V-B	<b><u>DO NOT COMPLETE</u></b>
	500-A. *Total Allocated LAE Fees Paid - Exhibit V-A	<b><u>DO NOT COMPLETE</u></b>
	500. Total Allocated LAE Fees Paid	<b><u>DO NOT COMPLETE</u></b>

\*Upon FIA's request, WYO Company must provide supporting detail for the reported expense.

◆EXHIBIT V-D

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 05/01/97 AND LATER)

5G PERIOD ENDING \_\_\_\_\_

A	B	C	D	E
ENTRY VALUE RANGE		NUMBER CLOSED	FEE	FEES PAID (COLS. B X C)
ERRONEOUS ASSIGNMENT		_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT		_____	125.00	_____
\$ .01 - \$600.00		_____	150.00	_____
600.01 - 1,000.00		_____	175.00	_____
1,000.01 - 2,000.00		_____	225.00	_____
2,000.01 - 3,500.00		_____	275.00	_____
3,500.01 - 5,000.00		_____	350.00	_____
5,000.01 - 7,000.00		_____	425.00	_____
7,000.01 - 10,000.00		_____	500.00	_____
10,000.01 - 15,000.00		_____	600.00	_____
15,000.01 - 25,000.00		_____	750.00	_____
25,000.01 - 35,000.00		_____	900.00	_____
35,000.01 - 50,000.00		1	1200.00	2,400
50,000.01 - 100,000.00		_____	3.0%	_____
100,000.01 - 250,000.00		_____	2.3%, BUT NOT LESS THAN \$3,000	_____
250,000.01 AND UP		_____	2.1%, BUT NOT LESS THAN \$5,750	_____
<b>5H</b> 500-D. *Total Allocated LAE Fees Paid - Exhibit V-D				2,400
<b>5F</b> 500-C. *Total Allocated LAE Fees Paid - Exhibit V-C				2,085
<b>5C</b> 500-B. *Total Allocated LAE Fees Paid - Exhibit V-B				675
500-A. *Total Allocated LAE Fees Paid - Exhibit V-A				0
500-E. *Total Allocated LAE Fees Paid - Exhibit V-E				0
<b>5I</b> 500. Total Allocated LAE Fees Paid				5,160

\*Upon FEMA request, a WYO Company must provide supporting detail for the reported expense.

◆EXHIBIT V-E

**INCREASED COST OF COMPLIANCE (ICC) FEE SCHEDULE - ALLOCATED LAE**

**(USE FOR ICC CLAIMS WITH LOSS DATE OF 6/01/97 AND LATER)**

PERIOD ENDING \_\_\_\_\_

A	B	C	D
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEES PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
\$ .01 - \$ 600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	600.00	_____
500-E. *Total Allocated LAE Fees Paid For ICC			=====

\*Upon FIA's request, WYO Company must provide supporting detail for the reported expense.

**EXHIBIT VI**

**OTHER LOSS AND LAE CALCULATION**

<b>6A</b> COMPANY (NAME)	<u>Harwell</u>
<b>6B</b> COMPANY (NUMBER)	<u>25678</u>
<b>6C</b> PERIOD ENDING	<u>May/19XX</u>

		<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<u>UNALLOCATED LAE PAID</u>			
<b>6D</b>	600. Net Paid Losses (Line 115)	<u>168,900</u>	<u>168,900</u>
<b>6E</b>	605. Change In Case Reserves (Line 325, Col. C)	<u>20,000</u>	<u>60,000</u>
<b>6F</b>	610. Case Incurred Losses	<u>188,900</u>	<u>228,900</u>
	615. Unallocated Expense Allowance %	<u>x3.3%</u>	<u>x3.3%</u>
<b>6G</b>	620. Unallocated LAE	<u>6,234</u>	<u>7,554</u>
<u>SALVAGE, SUBROGATION, AND RECOVERY</u>			
<b>6H</b>	625. Net Salvage Received	<u>100</u>	<u>100</u>
	630. Salvage Allowance %	<u>x10%</u>	<u>x10%</u>
<b>6I</b>	635. Salvage Credit	<u>10</u>	<u>10</u>
<b>6J</b>	640. Net Subrogation Received	<u>- 0 -</u>	<u>- 0 -</u>
	645. Subrogation Allowance %	<u>x25%</u>	<u>x25%</u>
<b>6K</b>	650. Subrogation Credit	<u>- 0 -</u>	<u>- 0 -</u>
<b>◆6L</b>	652. Recovery of Losses Paid	<u>- 0 -</u>	<u>- 0 -</u>
<u>SPECIAL ALLOCATED LAE</u>			
<b>6M</b>	655. Special Allocated Loss Adjustment Expenses	<u>50</u>	<u>50</u>
<b>6N</b>	660. Total Other Loss & LAE Items (Sum of Lines 620, 635, 650, and 655)	<u>6,294</u>	<u>7,614</u>



**EXHIBIT VII**  
**INTEREST INCOME**

**7A** COMPANY (NAME)      Harwell  
**7B** COMPANY (NUMBER)    25678  
**7C** PERIOD ENDING        May/19XX

		<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<b>7D</b>	700. Total Interest Received	<u>- 0 -</u>	<u>- 0 -</u>
<b>7E</b>	705. Restricted Account Charges	<u>- 0 -</u>	<u>- 0 -</u>
<b>7F</b>	710. Total Interest Income	<u>- 0 -</u>	<u>- 0 -</u>

◆ EXHIBIT VIII-A

LETTER OF CREDIT DRAWDOWNS

8A COMPANY (NAME) Harwell

8B COMPANY (NUMBER) 25678

8C PERIOD ENDING May/19XX

8D DATE

8D AMOUNT

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8E 800.

TOTAL

0



◆EXHIBIT VIII-C

CREDIT CARD PAYMENTS TO THE NFIP

8AAA COMPANY (NAME) Harwell

8BBB COMPANY (NUMBER) 25678

8CCC PERIOD ENDING May/19XX

8DDD DATE 8DDD AMOUNT

05/12/19XX 430

05/19/19XX 430

05/26/19XX 430

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8EEE 805-C. TOTAL 1,290

**EXHIBIT IX**

**RESTRICTED ACCOUNT DEPOSITS SUMMARY**

**9A** COMPANY (NAME)            Harwell  
**9B** COMPANY (NUMBER)        25678  
**9C** PERIOD ENDING            May/19XX

RESTRICTED ACCOUNT DEPOSITS

<b>9D</b>	<b>9D</b>
<u>DATE</u>	<u>AMOUNT</u>
<u>05/03/19XX</u>	<u>20,000</u>
<u>05/04/19XX</u>	<u>20,000</u>
<u>05/05/19XX</u>	<u>20,000</u>
<u>05/06/19XX</u>	<u>20,000</u>
<u>05/07/19XX</u>	<u>22,000</u>
<u>05/10/19XX</u>	<u>19,000</u>
<u>05/11/19XX</u>	<u>19,000</u>
<u>05/12/19XX</u>	<u>19,000</u>
<u>05/13/19XX</u>	<u>19,000</u>
<u>05/14/19XX</u>	<u>22,000</u>
<u>05/17/19XX</u>	<u>20,000</u>
<u>05/18/19XX</u>	<u>20,000</u>
<u>05/19/19XX</u>	<u>20,000</u>
<u>05/20/19XX</u>	<u>20,000</u>
<u>05/21/19XX</u>	<u>24,000</u>
<u>05/23/19XX</u>	<u>25,000</u>
<u>05/24/19XX</u>	<u>25,000</u>
<u>05/25/19XX</u>	<u>25,000</u>
<u>05/26/19XX</u>	<u>25,000</u>
<u>05/27/19XX</u>	<u>26,990</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<b>9E</b> 900. TOTAL DEPOSITS FOR THE MONTH	<u>430,990</u>

## EXHIBIT I - INCOME STATEMENT

- 1A COMPANY (Name)** - Insert Company name.
- 1B COMPANY (Number)** - Insert Company's 5-digit NAIC number. Contact your WYO Account Executive if you cannot identify your NAIC number.
- 1C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

### REVENUE

**◆1D Line 100 - Net Written Premium (Current Month):**

The total of booked premiums less premium refunds for the reporting month.

This total should represent the calculated value of each premium transaction (not the actual cash collected). As previously stated, Harwell Company booked \$400,000 of net written premium. This amount includes cancellation transactions of \$1,200.

**Line 100 - Written Premium (FYTD):**

Add total of current month to last month's fiscal year-to-date total. Therefore, the fiscal year-to-date total is:

Current Month	=	\$400,000
Previous Fiscal		
Year-to-Date	=	<u>+200,000</u>
Fiscal Year-To-Date	=	<u>\$600,000</u>

**1E Line 105 - Change in Unearned Premium (Current Month):**

Increase or decrease in the account balance of unearned premiums from prior month to current month's end. A Company utilizes its own unearned/earned premium calculation. In the example, Harwell should have a balance of (\$533,333) in the account at the close of the reporting period. The change from prior month (\$183,333) to current month balance (\$533,333) is (\$350,000). This entry is taken directly from Exhibit III, Line 320, Column C.

**Line 105 - Change in Unearned Premium (FYTD):**

Add current month change (\$350,000) to previous fiscal year-to-date figure (\$183,333) and insert total (\$533,333). To validate this figure, subtract Exhibit III, Line 320, Column A (\$533,333) from Exhibit III, Line 320, Column D, \$0.

**1F Line 110 - Earned Premium (Current Month):**

Line 100, \$400,000, minus Line 105 (\$350,000), equals \$50,000.

**Line 110 - Earned Premium (FYTD):**

Add current month's \$50,000 to prior month's fiscal year-to-date \$16,667 = \$66,667. To validate this figure, foot Exhibit I, Line 100, FYTD Column, \$600,000, and Exhibit I, Line 105, FYTD Column (\$533,333).

**EXPENSES**

**1G Line 115 - Net Paid Losses (Current Month):**

This line represents claim payments made during the reporting period less salvage, subrogation, and recoveries of losses paid. In the example, net paid losses were developed as follows:

Claim Payment No. 1

\$33,000 Covered Loss - \$2,000 Deductible = \$31,000 Payment

Salvage Received (\$100) Less (\$100)

Claim Payment No. 2

\$70,000 Covered Loss - \$1,000 Deductible = \$69,000 Payment

Claim Payment No. 3

\$70,000 Covered Loss - \$1,000 Deductible = \$69,000 Payment

Total Net Paid Losses = \$168,900

**1H Line 120 - Allocated LAE (Current Month):**

For development, refer to Exhibits V-B, V-C, and V-D. The total figure shown on Exhibit V-D, Line 500 (\$5,160) is carried forward to Exhibit I, Line 120, Current Month Column.

**1I Line 125 - Other Loss and LAE Items (Current Month):**

For development, refer to Exhibit VI. The figure indicated on Exhibit VI, Line 660 (\$6,294), Current Month Column is carried forward to Exhibit I, Line 125, Current Month Column.

**1J Line 130 - Change in Loss and LAE Reserves (Current Month):**

For development, refer to Exhibit III. The sum of Lines 325/Column C (\$20,000), 330/Column C (\$60,000), 335/Column C (\$400), 336/Column C (\$600) and 340/Column C (\$1,980) = (\$82,980). Bring this figure with the reverse sign, \$82,980, to Exhibit I, Line 130, Current Month Column.

**1K Line 135 - Net Loss and LAE Incurred (Current Month):**

Sum of Line 115, \$168,900; Line 120, \$5,160; Line 125, \$6,294; and Line 130, \$82,980 = \$263,334.

**1L Line 140 - Expense Allowance (Current Month):**

Refer to Exhibit IV for development. The figure (\$128,030) developed on Exhibit IV, Line 430, Current Month Column, is carried forward to Exhibit I, Line 140, Current Month Column.

**1M Line 150 - Miscellaneous Expense (Current Month):**

This item (Breakage) represents the net underpayment or overpayment for premiums submitted within \$6.00 of the system calculated amount. This applies to new business applications, endorsements, or renewals. In instances where a premium amount is calculated by the Company and a payment notice is submitted to the payor (e.g., premium renewal notice), no underpayment or overpayment is allowed.

In the following example, four new business applications for the current month had a **calculated** value as follows:

Policy Number 1	-	\$	425
Policy Number 2	-	\$	410
Policy Number 3	-	\$	425
Policy Number 4	-	\$	<u>405</u>

Total Calculated = \$1,665



The four policies had payments **collected** of:

Policy Number 1	-	\$	420
Policy Number 2	-	\$	404
Policy Number 3	-	\$	421
Policy Number 4	-	\$	<u>400</u>

Total Payments = \$ 1,645

Since there is a difference between calculated and collected payments of no more than \$6.00 for each of these four policies, the total breakage is \$20 (calculated [\$1,665] - collected [\$1,645]). The \$20 breakage is shown as an expense on Line 150. If breakage was the opposite (calculated amount \$1,645, collected amount \$1,665), the total breakage amount would be shown on Line 150 as a credit (\$20).

**1N Line 155 - Total Expense (Current Month):**

◆ Sum of Line 135, \$263,334; Line 140, \$128,030; and Line 150, \$20 = \$391,384.

**1O Line 160 - Operating Income (Loss) (Current Month):**

◆ Line 110, \$50,000 less Line 155, \$391,384 = (\$341,384) (Loss).

**1P Line 165 - Interest Income (Current Month):**

For development, refer to Exhibit VII. The entry on Line 710, \$0, is carried forward to Exhibit I, Line 165. Harwell had no interest income.

**◆1Q Line 170 - Net Federal Policy Fees (Current Month):**

Harwell received \$30,000 in federal policy fees with booked premium of \$400,000. Therefore, the net federal policy fees booked for the month was \$30,000.

**◆1R Line 175 - Net Income (Loss) (Current Month):**

Sum of Line 160, (\$341,384); Line 165, \$0; and Line 170, \$30,000 = (\$311,384) (Loss).

**1S PREPARER'S NAME:**

Insert your name.

**1T PHONE NUMBER:**

Indicate your phone number so that you can be contacted if any questions arise concerning your submission.

## EXHIBIT II - RECONCILIATION OF PAYABLE/RECEIVABLE BALANCE

**2A COMPANY (Name)** - Insert Company name.

**2B COMPANY (Number)** - Insert Company's NAIC number.

**2C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**2D Line 200 - Beginning Payable/Receivable Balance (Current Month):**

Refer to Exhibit III, Line 315, Column B. Reverse sign and insert entry (\$282,313) on Line 200.

**Line 200 - Beginning Payable/Receivable Balance (FYTD):**

Refer to Exhibit III, Line 315, Column D. Insert this entry, \$0, on Line 200.

**2E Line 205 - Net Income (Loss) (Current Month):**

◆ Insert net loss amount from Exhibit I, Line 175, Current Month (\$311,384).

Net income should be shown as a debit.

**Line 205 - Net Income (Loss) (FYTD):**

◆ Add Current Month (\$311,384) to Prior Month's figure (\$136,633) = (\$448,017).

**2F Line 210 - LOC Funds Received (Current Month):**

Refer to Exhibit VIII-A, Line 800, and carry forward this entry, \$0, to this line. This entry is always shown as a debit.

**Line 210 - LOC Funds Received (FYTD):**

Add Current Month, \$0, to Prior Month's fiscal year-to-date balance, \$0 = \$0.

**2G Line 215 - Disbursements to NFIP (Current Month):**

◆ Refer to Exhibit VIII-B, Line 805, and carry forward this entry to this line.

This entry is always shown as a credit (\$122,596).

**Line 215 - Disbursements to NFIP (FYTD):**

- ◆ Add Current Month (\$122,596) to Prior Month's fiscal year-to-date balance (\$145,680) = (\$268,276).

**2H Line 220 - Ending Payable/Receivable Balance (Current Month):**

- ◆ Sum of Current Month Column Line 200, (\$282,313), Line 205, (\$311,384); Line 210, \$0, and Line 215, (\$122,596) = (\$716,293).

**Line 220 - Ending Payable/Receivable Balance (FYTD):**

- ◆ Sum of FYTD Column Line 200, \$0; Line 205, (\$448,017); Line 210, \$0; and Line 215, (\$268,276) = (\$716,293).
- ◆ NOTE: For Line 220, Current Month (\$716,293) and FYTD (\$716,293) totals should always agree.

### EXHIBIT III - BALANCE SHEET ITEMS

**3A PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

As you will note, this Exhibit is broken down into four columns for each line item. Column A (Current Month) represents the balance for each line item as of the end of the reporting period (May/19XX). Column B (Prior Month) represents the balance that was previously reported in Column A for the prior month. Column C (Increase/ Decrease) is the difference between the current month's balance (Column A) and the prior month's balance (Column B). Column D (Beginning of Fiscal Year) should indicate the starting balances for the beginning of each new fiscal year. The fiscal year starts as of October 1, 19XX. Therefore, the balances shown in this column are really ending balances for the September reporting period. In our example, Column D contains all \$0's because the Harwell Company was not writing and reporting as of September the previous year. The Exhibit reflects this condition.

Let us proceed now to the completion of Column A (Current Month) for each line entry.

**3B Line 300 - Cash (Column A):**

Indicate the ending general ledger cash balance reflected for the reporting period (May/19XX) in the flood insurance restricted account. This balance is \$25,000.

The balance is derived in the following manner:

	<u>April/May Total</u>
◆Gross Premiums Collected*	\$601,890◆
◆Federal Policy Fees Collected**	45,000◆
Salvage Received	100
Less Disbursements:	
Cancellation Refunds	(1,200)◆
Paid Losses	(169,000)
Allocated LAE	(5,160)
Unallocated LAE	(7,554)
Salvage Credit	(10)
Special Allocated LAE	(50)
Expense Allowance	(172,030)◆
NFIP Excess Funds - Cash Payments Only***	<u>(266,986)◆</u>
 Total Cash at End of Reporting Period	 <u><u>\$ 25,000</u></u>

\*Excludes credit card charges of \$1,200.

\*\*Excludes credit card charges of \$90.

\*\*\*Excludes credit card payments of \$1,290.

**3C Line 305 - Cash - Not Transferred To Restricted Account  
(Column A):**

- ◆ This line represents any flood insurance monies received by Harwell Company but not placed into the restricted account because of a timing problem. In this case, all monies were deposited timely into the restricted account. Therefore, the entry is \$0. If money was owed the restricted account, the entry would be a debit. Upon FEMA's request, the WYO Company must provide supporting detail concerning the reported balance. This detail should include policy number or payor name and amount. The details should also age balances under the following time frames: 0-30 days; 31-60 days; 61-90 days; 91-180 days; 181-360 days; and over 360 days. The WYO Company will be notified when such a request is made.

**3D Line 310 - Cash - Not Transferred From Restricted Account  
(Column A):**

- ◆ This line represents the total amount due from the restricted account to pay various charges, e.g., expense allowances, premium refunds, etc., to the WYO Company. In this case, \$20,000 is payable from the account to Harwell Company because only \$108,030 of the current month expense allowance earned by the Company was drawn. This payable is shown as a credit (\$20,000). Upon FEMA's request, WYO Company must provide supporting aged detail concerning the reported balance. The detail should include payee name or policy number and amount payable. The details should also age balances under the following time frames: 0-30 days; 31-60 days; 61-90 days; 91-180 days; 181-360 days; and over 360 days. The WYO Company will be notified when such a request is made.

**3E Line 315 - Payable To (Receivable From) NFIP (Column A):**

Insert figure from Exhibit II, Line 220, Fiscal Year-To-Date Column, but with the reverse sign. This figure is \$716,293.

**3F Line 320 - Unearned Premium Reserves (Column A):**

This entry represents the balance of the unearned premium at the end of the current month reporting period. Since this is a liability, it is shown as a credit (533,333).

**3G Line 325 - Loss Reserves (Case) (Column A):**

This entry represents the balance at the end of the reporting month for all outstanding claim case reserves. This liability is shown as a credit (\$60,000).

**3H Line 330 - Loss Reserves (IBNR) (Column A):**

This balance represents the balance at the end of the reporting month for all outstanding losses incurred but not yet reported. This liability is shown as a credit (\$120,000).

**3I Line 335 - LAE Reserves-Case (Allocated) (Column A):**

This balance represents an estimate of allocated LAE reserves for open reported claims only. This liability is shown as a credit (\$700).

**3J Line 336 - LAE Reserves-IBNR (Allocated) (Column A):**

This balance represents an estimate of allocated LAE reserves for incurred, but not reported, claims only. This liability is shown as a credit (\$1,300).

**3K Line 340 - LAE Reserves (Unallocated) (Column A):**

This account represents the LAE reserve for unallocated loss adjustment expenses. It is developed by taking the reported IBNR (Line 330 - Column A) and multiplying it by 3.3%. In this example,  $(\$120,000) \times 3.3\% = (\$3,960)$ . This liability is shown as a credit (\$3,960).

**3L Line 345 - Premium Suspense (Under 60 Days Old) (Column A):**

This balance represents the total of cash deposited in the restricted account for a period of less than 60 days for policies that have not been posted. In this example, \$2,000 (\$1,000 [current month] + \$1,000 [prior month]) was deposited for policies not posted as written premium. This liability is shown as a credit (\$2,000).

**3M Line 346 - Premium Suspense (60 Days and Older) (Column A):**

This balance represents the total of cash deposited in the restricted account for a period of 60 days or more for policies that have not posted as written premium. In this example, this entry is \$0 since the Company made its first deposit of premiums into the restricted account on April 7, 19XX.

All entries under Column B (Prior Month) were the previous month's (April/19XX) ending balances. Simply go to last month's Exhibit III and insert the Column A entries onto this month's Exhibit under Column B.

Column C entries are the differences between Column A (current month) and Column B (prior month).

**NOTE:** You have now completed Exhibit III. All entries for Columns A, B, C, and D should total to \$0. If not, recheck your entries for a mistake.

## EXHIBIT IV - EXPENSE ALLOWANCE CALCULATION

- 4A COMPANY (Name)** - Insert Company name.
- 4B COMPANY (Number)** - Insert Company's NAIC number.
- 4C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**4D Line 400 - Net Written Premium (Current Month):**

Insert figure from Exhibit I, Line 100, Current Month. This figure is \$400,000.

**4E Line 405 - Expense Allowance % (Current Month):**

Insert the expense allowance percentage of 32.0% (percent selected for illustrative purposes only). This percentage will vary for each fiscal year.

**4F Line 410 - Expense Allowance for Written Premium (Current Month):**

Line 400, \$400,000 x Line 405, 32.0% = \$128,000.

**4G Line 415 - Cancellation Premium Refund Adjustment Base (Current Month):**

The Harwell Company may retain 15 percent of premium refunded on policies cancelled for the following reasons:

- Property sold.
- Property removed.
- Insurance no longer required by lender because property is no longer located in area of special flood hazard, provided no claim has been paid or is pending.
- Cancellation of condominium association or unit policy due to issuance of a condominium master policy.
- Mid-term voidance of a 3-year policy because of the community's cessation of participation in the NFIP.

◆ In this example, the Harwell Company had a policy in the current reporting month cancelled because the property was sold. The total amount of the **refund** sent to the insured was \$200. The refund total of \$200 is the entry to be made on line 415.

**NOTE:** The premium refund adjustment base is only for those policies cancelled for the above reasons, and the 15% is taken from the actual refund given.



**4H Line 425 - Cancellation Commission Retention (Current Month):**

Line 415, \$200 x Line 420, 15% = \$30.

**◆4I Line 426 - Expense Allowance Adjustment:**

Line 426 is used to record the adjustment to a company's expense allowance based upon achieving predetermined policy or contract-in-force goals. The adjustment can result in a company either earning additional expense allowance or returning with interest expense allowance not earned.

The calculation of the expense allowance adjustment will be performed by the NFIP Bureau and Statistical Agent and the company will be notified of the additional expense allowance amount earned or owed.

The policy or contract-in-force goals and the formula used in calculating the expense allowance adjustment will be determined by FIA. Companies will be notified of their goals by FIA, and of the procedures used in calculating their expense allowance adjustment.

For purposes of this Manual, two scenarios are given. In the first scenario, assume that Harwell had a very successful year and achieved its policy or contract-in-force goals. In this case, Harwell will receive written notification from the NFIP Bureau disclosing the additional expense allowance amount earned and how it was computed. The notification will also provide instructions in how to take the additional earned expense allowance and in how to report the amount on Harwell's monthly financial statement.

Since Harwell earned additional expense allowance, it can withdraw the additional expense allowance amount from the flood restricted account. If the account holds insufficient funds, Harwell may request LOC funds in the exact amount of the additional expense allowance earned.

To report this transaction, Harwell will insert the amount of the additional expense allowance taken as a debit on Line 426, financial statement Exhibit IV (Expense Allowance Calculation).

In the second scenario, let us assume that Harwell was not successful in achieving its growth goals. As mentioned previously, Harwell will receive written documentation from the NFIP Bureau disclosing the expense allowance amount owed to the NFIP and how it was computed. Note, the interest is included in the calculation of the amount owed.

Since Harwell owes the NFIP the unearned expense allowance, it should deposit funds in the flood restricted account for the payback amount. Harwell should then remit to the U.S. Treasury through its ACH mechanism the payback amount. It is important for audit trail purposes that a separate ACH transaction be used to transmit the expense allowance payback amount.

To report the expense allowance payback transaction, Harwell will show the amount of the payback as a credit on Line 426, financial statement Exhibit IV (Expense Allowance Calculation). In addition, Harwell would

indicate the date and dollar amount of the ACH transfer of the expense allowance payback as a separate line item on financial statement Exhibit VIII-B (Cash Payments To The NFIP).

**NOTE:** Paybacks will occur only if the company has elected to take an expense allowance rate higher than the base expense allowance rate for a particular fiscal year. For instance, if the company opted for the higher rate of 32.6 percent (FY1997) and did not achieve its growth goal, a payback situation will materialize.

**4J Line 427 - Rating Organization Expense (Current Month):**

This line is to be completed whenever a WYO Company, with the prior written approval of the FIA Administrator, utilizes the services of a national rating organization. The rating organization must be licensed under state law. Its services must assist the FIA in performing studies and investigations on a community or an individual risk basis to determine more equitable and accurate estimates of flood insurance risk premium rates.

In the example, the Harwell Insurance Company did not utilize the services of a rating organization. Therefore, the entry on Line 427 is \$0.

If Harwell had used the services of a national rating organization and had incurred an expense of \$500, it would have indicated on Line 427 the \$500 fee for the rating organization services. The Company may disburse funds directly from the restricted account, or may be reimbursed from the restricted account, if it chooses. A WYO Company should then attach a copy of the paid bill to its monthly financial statements.

**4K ◆Line 428 - State Sales Tax on Insurance Services (Current Month):**

**Background**

The Texas tax authorities have determined that the Texas sales tax on insurance services is applicable to all fees paid by WYO Companies to claim adjusters and/or adjusting firms for handling Texas NFIP claims. Because of this determination, the NFIP had no alternative but to pass on the cost of this Texas adjuster services sales tax to Texas flood insurance policyholders. This was done by assessing an additional \$5 charge to new business policies (effective 1/1/93) and to renewal policies (effective 3/1/93).

In addition, FEMA has determined it will reimburse dollar-for-dollar the expense incurred by a WYO Company that pays the Texas sales tax for adjuster services provided to Texas policyholders. Your Company may take the reimbursement for the tax expense after the tax has been paid to the adjuster and/or adjusting firm.

### **Procedure**

In order to be reimbursed for the Texas sales tax, a WYO Company must make the expenditure to the adjuster and then must submit supporting documentation. The specifics of the reimbursement procedure are as follows:

1. On financial statement Exhibit IV (Expense Allowance Calculation), Line 428, indicate the total amount of Texas sales charges paid for the reporting month. Please note, this entry should **not** include your Company's allocated loss adjustment fee for the adjustment of claims cases. This expense should still be indicated on the applicable Allocated LAE Fee Schedules.
2. Include with your financial statement package a listing that details the Texas sales tax paid for adjuster services on each payment made. The total of the individual tax payments on this listing should agree with total amount recorded on Exhibit IV, Line 428. The listing should contain the following information: the policy number (not claim number) associated with the paid adjuster expense; date of loss; name of adjuster and/or adjusting firm paid; the date of the adjuster payment; total amount of payment to the adjuster (inclusive of the sales tax); and amount of Texas sales tax paid.
3. Maintain in your Company's records all supporting documentation concerning the payment of the Texas sales tax.

### **Example**

If Harwell were to pay various adjusters and/or adjuster firms a total Texas sales tax of \$100, it would indicate on Exhibit IV, Line 428, the \$100 incurred. In this case, Harwell would include the payment of the tax (\$100) as part of its expense allowance due for the reporting month.

In addition, Harwell must attach to its financial statement a listing indicating the specifics of the various payments as outlined in the aforementioned procedure.

#### **4L Line 430 - Total Expense Allowance (Current Month):**

- ◆ Sum of Line 410, \$128,000; Line 425 \$30; Line 426, \$0; Line 427, \$0; and Line 428, \$0 = \$128,030. Insert this figure, \$128,030, on Exhibit I, Line 140, Current Month Column.

## ◆ EXHIBITS V-A, B, C, D, AND V-E FEE SCHEDULES - ALLOCATED LAE

**NOTE:** There are **five** allocated Loss Adjustment Expense (LAE) financial statement fee schedules. The key to the use of the proper fee schedule is the claim loss date. Once the claim loss date is known, simply apply the following guide to determine what financial statement fee schedule you should use to report the allocated LAE on your financial statement:

DATE OF LOSS	FEE SCHEDULE
09/30/90 and prior	EXHIBIT V-A
10/01/90 through 10/31/96	EXHIBIT V-B
11/01/96 through 04/30/97	EXHIBIT V-C
05/01/97 and later	EXHIBIT V-D
06/01/97 and later	EXHIBIT V-E — Use only for Increased Cost of Compliance (ICC) claim expenses

### FEE SCHEDULE PRINCIPLES

- The allocated LAE fee can be taken at the time a **final** claim payment is made. The allocated LAE fee can also be taken at the time a **partial** claim payment is made.
- Fees are not paid separately for building and content losses. Rather, the sum of building and content covered or gross losses is the basis for the fee.
- The major task in using the various fee schedules is to determine the entry value for each claim. The entry value may be based on either the **covered** loss or the **gross** loss. In addition, the entry value will not, in all cases, equal the claim payment.
- For fee schedule entry value calculations, based on covered loss, the standard deductible is subtracted from the covered loss amount, rather than the actual deductible amount shown on the policy. The standard deductible is \$500 each, for building and contents. Covered loss is limited to the amount of insurance purchased.
- Fee schedule entry value calculations based on gross loss pertain to all claims with a date of loss from 05/15/96 to 07/10/96, and all claims with a date of loss from 05/01/97 and later. For these claims all entry value

calculations should be based on the gross loss as described in the "footnotes" to the fee schedule in the May 1996 rule.

- Exhibit V-E is to be used to record and to report **only** LAE related to ICC coverage payments.

The "footnotes" contained in the May 1996 rule are as follows:

- (1) Gross loss shall mean the agreed cost to repair or replace before application of depreciation, deductibles, or other limiting clauses or condition.
- (2) For the purpose of this schedule, should the loss exceed the available coverage, gross loss shall mean the amount of coverage.
- (3) If the claim involves a salvage buy-back, gross loss shall mean the amount of the claim before the salvage value is deducted.
- (4) If the insured qualifies for replacement cost coverage, gross loss is determined on the basis of the entire replacement cost claim (including depreciation holdback).

If the loss exceeds the available coverage, gross loss will mean the total amount of coverage.

### **FEE SCHEDULE BACKGROUND**

On May 15, 1996, an interim final rule was issued concerning the National Flood Insurance Program Adjuster Fee Schedule. This rule did two things. First, it raised the fee amounts for entry values greater than \$50,000. (The ranges and the fee amounts lower than \$50,000 remained the same.) Second, it changed the basis of the fee schedule entry value from the "covered loss less the standard deductibles" to the "gross loss."

On July 11, 1996, an amendment to the interim final rule was issued. The amended rule was effective for all losses dated 07/11/96 and later. This major revision calculated the LAE based on the "covered loss less standard deductibles." The prior rule, effective for cases with a date of loss of 05/15/96 through 07/10/96, based the calculation on "gross loss."

On September 30, 1996, it was announced that a another fee schedule would be in effect for all claims with loss dates of 05/01/97 and later. This fee schedule contained two major revisions. First, it revised the fees paid for certain entry value ranges. Second, it calculated the LAE based on the "gross loss." The prior rule, effective for cases with a date of loss of 07/11/96 through 04/30/97, stated that the calculation be based on "covered loss less standard deductibles."

The announcement of these current and future fee schedule changes necessitated issuance of revised financial and statistical reporting procedures. These revised procedures are based on the claim loss date, and are as follows:

- **CLAIMS WITH LOSS DATE OF 09/30/90 AND PRIOR**

All fee schedule entry value calculations should be based on covered loss, not gross loss, less standard deductibles, if applicable, for building (\$500) and contents (\$500). Covered loss is limited to the amount of insurance purchased.

The financial statement EXHIBIT V-A/Fee Schedule should be used to report the appropriate allocated loss adjustment expense.

Please refer to Example A.

- **CLAIMS WITH LOSS DATE OF 10/01/90 TROUGH 05/14/96**

All fee schedule entry value calculations should be based on covered loss, not gross loss, less standard deductibles, if applicable, for building (\$500) and contents (\$500). Covered loss is limited to the amount of insurance purchased.

The financial statement EXHIBIT V-B/Fee Schedule should be used to report the appropriate allocated loss adjustment expense.

Please refer to Example B.

- **CLAIMS WITH LOSS DATE OF 05/15/96 THROUGH 07/10/96**

All entry value calculations should be based on the gross loss as described in the "footnotes" to the fee schedule in the May 1996 rule. (Please refer to the previously listed "footnotes.") If the loss exceeds the available coverage, gross loss will mean the total amount of coverage. For all claims, calculate the fee amount based on the financial statement Exhibit V-C/Fee Schedule. The amount of fee in excess of the financial statement Exhibit V-B/Fee Schedule (Basic LAE Fee) is to be processed as a Special Allocated Loss Adjustment Expense (SALAE) - Type 2. Prior FIA approval (authorization letter) is not necessary. The excess fee amount, if any, should be reported as a SALAE on Line 655 of financial statement EXHIBIT VI. In addition, please include the Gross Loss Amount on your required SALAE listing. For statistical reporting, the SALAE transaction code (71) should be used.

The basic fee (amount per Exhibit V-B/Fee Schedule) is to be reported on the financial statement Exhibit V-B.

Please refer to Example C.

- **CLAIMS WITH LOSS DATE OF 07/11/96 THROUGH 10/31/96**

All fee schedule entry value calculations should be based on covered loss, not gross loss, less standard deductibles, if applicable, for building (\$500) and contents (\$500). Covered loss is limited to the amount of insurance purchased.

For all claims with a fee range value of \$50,000.01 and above, calculate the fee amount based on the financial statement Exhibit V-C/Fee Schedule.

The amount of fee in excess of the financial statement Exhibit V-B/Fee Schedule (Basic LAE Fee) is to be processed as a Special Allocated Loss Adjustment Expense (SALAE) - TYPE 2. Prior FIA approval (authorization letter) is not necessary. The excess fee amount should be reported as a SALAE on Line 655 of financial statement Exhibit VI. For statistical reporting, the SALAE transaction code (71) should be used.

The basic fee (amount per Exhibit V-B/Fee Schedule) is to be reported on the financial statement Exhibit V-B.

Please refer to Example D.

For all claims with a fee range value of \$50,000 and below, calculate the fee based on the financial statement Exhibit V-C/Fee Schedule. Then, use financial statement Exhibit V-B/Fee Schedule to report the appropriate allocated loss adjustment expense.

- **CLAIMS WITH LOSS DATE BETWEEN 11/01/96 AND 04/30/97**

All fee schedule entry value calculations should be based on covered loss, not gross loss, less standard deductibles, if applicable, for building (\$500) and contents (\$500). Covered loss is limited to the amount of insurance purchased.

For all claims, calculate the fee amount based on the financial statement Exhibit V-C/Fee Schedule. Then, use financial statement Exhibit V-C/Fee Schedule to report the appropriate allocated loss adjustment expense.

Please refer to Example E.

**NOTE:** The Exhibit V-C/Fee Schedule-Allocated LAE incorporates the revised fee amounts for the entry value ranges of \$50,000.01 and above, and it eliminates the need to process the excess fee above the basic fee schedule as a SALAE. In addition, remember Exhibit V-C should be used only to report adjuster fees for claims with a loss date between 11/01/96 and 04/30/97. All fees for loss dates prior to 11/01/96 should be reported on financial statement Exhibits V-A or V-B. All fees for loss dates of 05/01/97 and later should be reported on financial statement Exhibit V-D.

- **CLAIMS WITH LOSS DATE OF 05/01/97 AND LATER**

All entry value calculations should be based on the gross loss as described in the "footnotes" to the fee schedule in the May 1996 rule. If the loss exceeds the available coverage, gross loss will mean the total amount of coverage.

For all claims, calculate the fee amount based on the financial statement Exhibit V-D Fee Schedule. Then, use financial statement Exhibit V-D Fee Schedule to report the appropriate allocated loss adjustment expense.

Please refer to Example F.

- **INCREASED COST OF COMPLIANCE (ICC) CLAIMS WITH A LOSS DATE OF 06/01/97 AND LATER.**

All entry value calculations should be based on the ICC loss. The maximum loss limit is \$15,000.

For ICC claims only, calculate the fee amount based on the financial statement Exhibit V-E Fee Schedule. Then, use financial statement Exhibit V-E Fee Schedule to report the appropriate allocated loss adjustment expense.

Please refer to Example G.

Now, let us begin to complete the appropriate fee schedules following the above rules. Please note that the Harwell Insurance Company incorporated only Examples B, E, and F into its financial statements for the reporting period of May/19XX.



**SPECIAL NOTATION - Only Examples B, E, and F Allocated LAE amounts are reflected on Harwell's financial statements.**

**EXAMPLE A**

**EXHIBIT V-A/FEE SCHEDULE - ALLOCATED LAE**

**NOTE:** Remember to use Exhibit V-A/Fee Schedule for only those claims with loss dates of 09/30/90 and prior.

In this example, a contents claim of \$6,000 was reported. The date of loss was 05/09/90. The insured's contents coverage is for \$10,000 with a deductible of \$1,000. The claim was approved and a final claim payment to the insured of \$5,000 was made (covered loss of \$6,000 minus the policy deductible of \$1,000).

Complete the Exhibit V-A/Fee Schedule as follows:

**COMPANY (Name)** - Insert Company name.

**COMPANY (Number)** - Insert Company's NAIC number.

**PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**Line 500-A - Total Allocated LAE Fees Paid - Exhibit V-A:**

To determine the entry value on the Exhibit V-A/Fee Schedule, take the covered loss of \$6,000 and subtract the standard deductible of \$500. This equals \$5,500 and represents the entry value. Now go to the Fee Schedule Exhibit V-A and under Column A (Entry Value Range), find the range of "\$5000.01 - \$6,000.00." On this line insert a "1" under Column B. Complete Column D (Fees Paid) by multiplying Column B (1) with Column C (Fee = \$350.00). The fee for this claim is \$350. Total Column D and insert the number \$350 on Line 500-A.

Next, bring this number forward to Exhibit V-D, Line 500-A.

**NOTE:** At FEMA's request, a WYO Company must provide supporting details for its fiscal year-to-date allocated loss adjustment expenses. The detail should include the policy number impacted by the claim, date of loss, total claim payments, and the total allocated loss adjustment expense.

## EXAMPLE B

### EXHIBIT V-B/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use Exhibit V-B/Fee Schedule to report only those claims with loss dates of 10/01/90 through 10/31/96.

In this example a building loss of \$28,000 and a contents claim loss of \$5,000 were reported. The date of loss was 05/07/96. The insured's coverage is for \$50,000 building and \$10,000 contents. The insured also has a \$1,000 deductible for each building and contents. The claim was approved and a final claim payment was made to the insured of \$31,000 (building covered loss \$28,000 minus policy deductible of \$1,000 = \$27,000; contents covered loss \$5,000 minus the policy deductible of \$1,000 = \$4,000).

Complete the Exhibit V-B/Fee Schedule as follows:

**5A PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**5B Line 500-B** - Total Allocated LAE Fees Paid - Exhibit V-B:

To determine the entry value on the Exhibit V-B/Fee Schedule, determine the date of loss and apply the appropriate rule:

- If the date of loss is **not** between the period of 05/15/96 to 07/10/96, the entry value for the fee schedule will be based on the **covered** loss.
- If the date of loss is **between** the period of 05/15/96 to 07/10/96, the entry value for the fee schedule will be based on the **gross** loss.

Because the date of loss in this example is not between 05/15/96 to 07/10/96, the entry value for the fee schedule will be based on the covered loss.

The next step in the fee schedule entry calculation is to take the covered loss for the building of \$28,000 and subtract the standard deductible of \$500, which equals \$27,500. Now take the covered loss for contents of \$5,000 and subtract the standard deductible of \$500, which equals \$4,500. Add the building and content figures for a total of \$32,000. This amount represents the entry value for use on the Exhibit V-B/Fee Schedule.

Use the Exhibit V-B/Fee Schedule and under Column A (Entry Value Range), find the range of \$25,000.01 - \$35,000.00. On this line, insert a "1" under Column B. Complete Column D (Fees Paid) by multiplying Column B (1) with Column C (Fee = \$675). The fee for this claim is \$675. Total all amounts under Column D. It should add up to \$675. Insert \$675 on Line 500-B.

**5C** Next, bring this number forward to Exhibit V-D, Line 500-B.

**NOTE:** At FEMA's request, a WYO Company must provide supporting details for its fiscal year-to-date allocated loss adjustment expenses. The detail should include: the policy number impacted by the claim, date of loss, total claim payments, and the total allocated loss adjustment expense.

## EXAMPLE C

### EXHIBIT V-B/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use Exhibit V-B/Fee Schedule to report only those claims with loss dates of 10/01/90 through 10/31/96.

In this example, a building claim of \$70,000 based on covered loss was reported. The gross loss of the reported claim was \$80,000. The date of loss was 07/04/96. The insured's building coverage is \$100,000 with a deductible of \$1,000. The claim was approved and a final claim payment of \$69,000 was made to the insured (covered loss of \$70,000, minus the policy deductible of \$1,000).

Complete the Exhibit V-B/Fee Schedule as follows:

**PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**Line 500-B** - Total Allocated LAE Fees Paid - Exhibit V-B:

To determine the entry value on the Exhibit V-B/Fee Schedule, determine the date of loss and apply the appropriate rule:

- If the date of loss is **not** between the period of 05/15/96 to 07/10/96, the entry value for the fee schedule will be based on the **covered** loss.
- If the date of loss is **between** the period of 05/15/96 to 07/10/96, the entry value for the fee schedule will be based on the **gross** loss.

Because the date of loss was 07/04/96, the fee schedule entry value calculation will be based on the gross loss not on the covered loss. Therefore, the entry value fee is \$80,000, the gross loss. Now, go to the Exhibit V-C/Fee Schedule and find the range of \$50,000.01 - \$100,000.00. Next, compute the loss adjustment fee by multiplying 3.0% times the gross loss (\$80,000). The LAE fee is \$2,400. Use financial statement Exhibit V-B/Fee Schedule to record the basic fee. Do this by finding the line with the entry value of \$80,000, with a corresponding fee of \$1,000. Insert a "1" under Column B. Complete Column D (Fees Paid) by multiplying Column B (1) with Column C (Fee = \$1,000). The basic fee for this claim is \$1,000. Next, bring this number forward to Exhibit V-D, Line 500-B.

Because the total fee earned in this case is \$2,400 and the basic fee reported by you is \$1000, the excess fee amount due your company is \$1,400 (\$2,400-1,000=1,400). Procedures require that the \$1,400 be reported as a SALAE-TYPE 2. Do this by reporting the \$1,400 on Line 655 of the financial statement Exhibit VI. Follow the SALAE reporting procedures and attach a listing, detailing the SALAE by policy number,

date of loss, SALAE amount, and type code to your financial statements. Also include on the listing the gross loss amount.

Final points to remember are (1) this SALAE-TYPE 2 does not require prior FIA approval (authorization letter) and (2) for statistical reporting, SALAE transaction code (71) should be used.

## EXAMPLE D

### EXHIBIT V-B/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use Exhibit V-B Fee Schedule to report only those claims with loss dates of 10/01/90 through 10/31/96.

This case represents the same facts as shown in Example C, except for the date of loss. You can contrast the difference in the entry value fee schedule amount based on either covered loss or gross loss and their respective financial statement reporting requirements. Therefore, a building claim of \$70,000 based on covered loss was reported. The gross loss of the reported claim loss was \$80,000. The date of loss was 09/17/96. The insured's building coverage is \$100,000 with a deductible of \$1,000. The claim was approved and a final claim payment to the insured of \$69,000 was made (covered loss of \$70,000 minus the policy deductible of \$1,000).

Complete the Exhibit V-B/Fee Schedule as follows:

**PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**Line 500-B** - Total Allocated LAE Fees Paid - Exhibit V-B:

Since the date of loss was 09/17/96, the Exhibit V-B/Fee Schedule will be used and the fee schedule entry value calculation will be based on the covered loss **not** the gross loss.

To determine the loss adjustment entry fee value, take the covered loss of \$70,000 and subtract the standard deductible of \$500, which represents the entry value of \$69,500. Now go to the Exhibit V-C/Fee Schedule and find the line with the entry value range of "\$50,000.01- \$100,000.00." Next, compute the loss adjustment fee by multiplying 3.0% times \$69,500 for a total of \$2,085. Use financial statement Exhibit V-B/Fee Schedule to record the basic fee. Do this by finding the line showing the range of "\$50,000.01 - \$100,000.00" and the corresponding fee of \$1,000. Insert a "1" under Column B. Complete Column D (Fees Paid) by multiplying Column B (1) with Column C (Fee = \$1000). The basic fee for this claim is \$1,000. Next, bring this number forward to Exhibit V-D, Line 500-B.

Because the total fee earned in this case is \$2,085 and the basic fee reported by you is \$1,000, the excess fee amount due your company is \$2,085 ( $\$2,085 - \$1,000 = \$1,085$ ). Procedures require the \$1,085 to be reported as a SALAE-TYPE 2. Do this by reporting the \$1,085 on Line 655 of financial statement Exhibit VI. Be sure to attach a listing detailing this SALAE by policy number, date of loss, SALAE amount, and type code to your financial statements. Because gross loss was not used as the basis for fee schedule entry value, the SALAE listing does not have to include the "gross loss amount."

Final points to be noted are (1) because this is a SALAE-TYPE 2, no prior FIA approval (authorization letter) is necessary, and (2), for statistical reporting, the SALAE transaction code (71) should be used.

## EXAMPLE E

### EXHIBIT V-C/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use this Fee Schedule to report only those claims with loss dates between 11/01/96 and 04/30/97.

This example represents the same facts as shown in Example D, except for the date of loss. You can contrast the **difference** in the financial statement reporting requirements even though the allocated loss adjustment expense is the **same** amount as in Example D.

A building claim of \$70,000 based on covered loss was reported. The gross loss of the reported claim was \$80,000. The date of loss was 12/07/96. The insured's building coverage is \$100,000 with a deductible of \$1,000. The claim was approved and a final claim payment of \$69,000 was made to the insured (covered loss of \$70,000 minus the policy deductible of \$1,000).

Complete the Exhibit V-C/Fee Schedule as follows:

**5D PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**5E Line 500-C** - Total Allocated LAE Fees Paid - Exhibit V-C:

Because the date of loss was 12/07/96, the Exhibit V-C/Fee Schedule will be used and the fee schedule entry value calculation will be based on the covered loss not the gross loss.

To determine the loss adjustment entry fee value, take the covered loss of \$70,000 and subtract the standard deductible of \$500 for a total of \$69,500, which represents the entry value. Go to the Exhibit V-C/Fee Schedule and find the line showing the range of \$50,000.01 - \$100,000.00. Enter the entry value of \$69,500 on this line. Next, compute the loss adjustment fee by multiplying 3.0% times \$69,500 for a total of \$2,085. To report this fee, insert a "1" under Column B in "\$50,000.01 - \$100,000.00" entry value range and insert under Column D the fee amount of \$2,085.

**5F** Next, bring this number (\$2,085) forward to Exhibit V-D, Line 500-C.

**NOTE:** Example E does not require SALAE processing and a SALAE statistical transaction need not be sent.



## EXAMPLE F

### EXHIBIT V-D/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use Exhibit V-D/Fee Schedule to report only those claims with loss dates 05/01/97 and later.

This example represents the same facts as shown in Example D, except for the date of loss. You can contrast the difference in the entry value fee schedule amount based on either covered loss or gross loss.

A building claim of \$70,000 based on covered loss was reported. The gross loss of the reported claim was \$80,000. The date of loss was 05/07/97. The insured's building coverage is \$100,000 with a deductible of \$1,000. The claim was approved with a final claim payment of \$69,000 made to the insured (covered loss of \$70,000 minus the policy deductible of \$1,000).

Complete the **Exhibit V-D Fee Schedule** as follows:

**5G PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**5H Line 500-D** - Total Allocated LAE Fees Paid

Because the date of loss was 05/07/97, the Exhibit V-D/Fee Schedule is used, and the fee schedule entry value calculation is based on the gross loss not the covered loss. Therefore, the entry fee value is \$80,000. Go to the Exhibit V-D/Fee Schedule and find the line with a the range of \$50,000.01 - \$100,000.00. Next, compute the loss adjustment fee by multiplying 3.0% times \$80,000. The LAE is \$2,400. To report this fee, insert a "1" under Column B in the "\$50,000.01 - \$100,000.00" entry value range and insert under Column D the fee amount of \$2,400. On the Fee Schedule, under Column D, total up all the amounts. The amount is \$2,400. Insert this amount on Line 500-D.

**5I** Next, sum the totals on Lines 500-D (\$2,400), 500-C (\$2,085), 500-B (\$675), 500-A (\$0), and 500-E (\$0). The total is \$5,160. After completion, bring this total (\$5,160) forward to Exhibit I (Income Statement) Line 120 (Allocated LAE).

**NOTE:** Example F does not require SALAE processing and a SALAE statistical transaction need not be sent.

## EXAMPLE G

### EXHIBIT V-E/FEE SCHEDULE - ALLOCATED LAE

**NOTE:** Remember to use Exhibit V-E/Fee Schedule to report only Increased Cost of Compliance (ICC) claims with loss dates 06/01/97 and later.

When utilizing the ICC Fee Schedule, please remember that the limit of liability for an ICC claim is \$15,000. Therefore, the maximum allocated LAE is \$600.

Now we will proceed to an example. An ICC loss of \$27,000 with a loss date of 8/11/97 has been developed. Since the limit of ICC liability is \$15,000 and since no deductible or depreciation is applicable, a payment of \$15,000 was made.

Complete the Exhibit V-E Fee Schedule as follows:

- PERIOD ENDING - Indicate the financial statement reporting period (Month/Year).
- Line 500-E - Total Allocated LAE Fees Paid

Because this was an ICC payment and the date of loss was 8/11/97, the Exhibit V-E/Fee Schedule is used. The fee schedule entry value calculation is based on the ICC claim payment amount. Therefore, the entry fee value is \$15,000.

Now go to the Exhibit V-E/Fee Schedule and find the line with the range of \$10,000.01-15,000.00. On that line, insert a "1" under Column B. Next complete Column D (Fees Paid) by multiplying Column B (1) with Column C (Fee = \$600.00). The fee for this ICC claim is \$600. Total column D and the amount of \$600 on Line 500-E.

Next, bring the number to Exhibit V-D, Line 500-E.

**NOW, LET US CONTINUE TO THE COMPLETION OF EXHIBIT VI - OTHER LOSS AND LAE CALCULATION**

## EXHIBIT VI - OTHER LOSS AND LAE CALCULATION

- 6A COMPANY (Name)** - Insert Company name.
- 6B COMPANY (Number)** - Insert Company's NAIC number.
- 6C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

### UNALLOCATED LAE PAID

**6D Line 600 - Net Paid Losses (Current Month):**

Go to Exhibit I, Line 115, Current Month Column, and insert that figure, \$168,900, on Line 600.

**6E Line 605 - Change in Case Reserves (Current Month):**

Go to Exhibit III, Line 325, Column C, and insert that figure, \$20,000 with the reverse sign on Line 605.

**6F Line 610 - Case Incurred Losses (Current Month):**

Add Line 600, \$168,900, and Line 605, \$20,000, and insert the total, \$188,900, on Line 610.

**6G Line 620 - Unallocated LAE (Current Month):**

For unallocated LAE, multiply Line 610, \$188,900, by Line 615, 3.3%. Insert the total, \$6,234, on Line 620.

◆ **SALVAGE, SUBROGATION, AND RECOVERY**

**6H Line 625 - Net Salvage Received (Current Month):**

This line represents the salvage collected, net of expenses.

In the example, Harwell received \$100 net of salvage costs for an item sold to a salvage company as a result of the contents claim settled in May. This net salvage received is recorded on Line 625.

**NOTE:** The salvage amount of \$100 has also been credited to the total losses paid, \$169,000, to give a \$168,900 (Lines 115 and 600) figure for net losses paid.

**6I Line 635 - Salvage Credit (Current Month):**

Multiply Line 625, \$100, by Line 630, 10%. Insert this figure, \$10, on Line 635 as your Company's salvage credit for the reporting month. As noted, Harwell has earned 10 percent of all salvage monies collected.

**6J Line 640 - Net Subrogation Received (Current Month):**

This line represents the subrogation amount collected, net of expenses. For the Harwell Company, no subrogation was collected. Therefore, Line 640 should indicate \$0.

**6K Line 650 - Subrogation Credit (Current Month):**

Multiply Line 640, \$0, by Line 645, 25%. Insert this figure, \$0, on Line 650 as your Company's subrogation credit for the reporting month. As noted, a Company earns 25 percent of any subrogation amount collected.

**6L ◆ Line 652 - Recovery of Losses Paid (Current Month):**

This line is used to record the amount of recovery monies returned to the restricted account by Harwell for its erroneous payment of claim losses. Harwell booked no recoveries for erroneous claim payments.

◆ **SPECIAL ALLOCATED LOSS ADJUSTMENT EXPENSES (SALAE)**

**6M Line 655 - Special Allocated Loss Adjustment Expenses (SALAE) (Current Month):**

This line represents adjustment expenses authorized by FIA for reimbursement, exclusive of expenses based on the Fee Schedules. SALAEs are of the following types:

- **Expense Type 1** - Engineering Expense - WYO Company is authorized to approve up to \$2,500 per claim without FIA's approval.
- **Expense Type 2** - Adjuster Expense (in excess of the applicable Fee Schedule) - WYO Company is authorized to approve up to \$500 per claim without FIA's approval.
- ◆ **Expense Type 3** - Litigation Expenses - WYO Company is authorized to approve up to \$5,000 per claim without FIA's approval.
- **Expense Type 4** - Cost of Appraisal (implementation of the Standard Flood Insurance Appraisal Clause) - WYO Company is authorized to approve up to \$2,500 per claim without FIA's approval.

When approved, the SALAE can be drawn from the flood insurance restricted account.

When a SALAE is incurred, it must be reported on the monthly financial statement, Exhibit VI, Line 655. In addition, the WYO Company representative must attach to its monthly financial statement a listing of all SALAEs taken in the reporting period. The listing should contain the following information: policy number, date of loss, SALAE amount, SALAE type code, and gross loss amount (when appropriate).

The WYO Company representative must attach a copy of the FEMA/FIA approval letter for SALAEs that required approval. It should be noted that the SALAE statistical transaction and the appropriate monthly financial/statistical reconciliation form are also required from the WYO Company.

In Harwell's case, a \$50 expense for an appraisal was incurred for the adjustment of its claim case #2. Since the expense was a type 4 and below \$2,500, no prior FIA approval was required for expense reimbursement. This expense of \$50 is shown on Line 655.

**6N Line 660 - Total Other Loss and LAE Items (Current Month):**

The sum of Line 620, \$6,234; Line 635, \$10; Line 650, \$0; and Line 655, \$50 = \$6,294. Enter this figure on Line 660 and on Exhibit I, Line 125, Current Month Column.

## EXHIBIT VII - INTEREST INCOME

- 7A COMPANY (Name)** - Insert Company name.
- 7B COMPANY (Number)** - Insert Company's NAIC number.
- 7C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).
- 7D Line 700 - Total Interest Received (Current Month):**
- ◆ This line represents the interest, if any, earned from funds deposited into the restricted flood account, or flood funds invested, or any other accounts. For Harwell, no interest was received. The entry on Line 700 is \$0.
- 7E Line 705 - Restricted Account Charges (Current Month):**
- ◆ This line is used to record charges, if any, related to the restricted flood account that are levied by the bank. This reported charge must be offset by any interest earned.
- For Harwell, there were no bank service charges. The entry is \$0.
- 7F Line 710 - Total Interest Income (Current Month):**
- The sum of Lines 700, \$0, and 705, \$0 = \$0. Enter that figure on Line 710 and on Exhibit I, Line 165, Current Month Column.

## ◆EXHIBIT VIII-A - LETTER OF CREDIT DRAWDOWNS

- 8A COMPANY (Name)** - Insert Company name.
- 8B COMPANY (Number)** - Insert Company's NAIC number.
- 8C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

### LETTER OF CREDIT (LOC) DRAWDOWNS

**8D Date/Amount Columns:**

Indicate in these columns every instance in which your Company deposited LOC funds to your restricted account. The date should reflect the date of booking the deposit in your records. The Amount Column represents the dollars deposited in each instance.

**8E Line 800 - Total:**

Total the individual LOC deposits. In Harwell's case, the sum is \$0. Also, enter this figure on Exhibit II, Line 210, Current Month Column as a debit. Any LOC total recorded on Exhibit II should be shown as a debit.

◆ **EXHIBIT VIII-B - CASH PAYMENTS TO THE NFIP**

- 8AA COMPANY (Name)** - Insert Company name.
- 8BB COMPANY (Number)** - Insert Company's NAIC number.
- 8CC PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).
- 8DD Date/Amount Columns:**

Indicate in these columns every instance in which your Company transferred to the U.S. Government any excess funds **exclusive of credit card payments** from the restricted account. The date should reflect the date the disbursement was made. The amount column represents the dollars transferred to the U.S. Government in each instance. **Excess funds must be transferred to the U.S. Treasury at least once a week.** The weekly transfer of funds is indicated on Harwell's Exhibit VIII-B.

**NOTE:** For procedures on how excess funds should be transferred to the U.S. Government, please refer to the appropriate section in the *Write Your Own (WYO) Accounting Procedures Manual*.

Excess funds are defined as cash in the restricted account reduced by \$5,000 and the established payable amount. In Harwell's case, the Company may maintain \$5,000, plus the \$20,000 payable amount for its undrawn expense allowance. Thus, the total excess funds amount for the month of May was \$122,596. This total consisted of \$1,290 of credit card payments and \$121,306 of cash payments. The cash payments were computed as follows:

April Restricted Account Balance		\$ 5,000
May <b>Cash/Check</b> Receipts		
Premium	\$400,980	
Federal Policy Fees	29,910	
Salvage	100	<u>430,990</u>
Total Restricted Account Balance		<u>\$435,990</u>
Less May Disbursements		
Premium Refunds	\$ 1,200	
Claims Paid	169,000	
Allocated LAE	5,160	
Unallocated LAE	6,234	



Less May Disbursements (cont.)

Salvage Credit	10
Special Allocated LAE	50
Expense Allowance	<u>108,030</u>

Total Restricted Account Disbursements	(\$289,684)
Restricted Account Balance	\$146,306
Less Cash Reserve of \$5,000	(5,000)
Less Payable due Harwell for Undrawn	
Expense Allowance of \$20,000	<u>(20,000)</u>
Excess Funds Due U.S. Government (CASH PAYMENTS ONLY)	<u>\$121,306</u>

**8EE Line 805-B - Total Cash Payments:**

Sum the individual payments (do not include credit cards) made to the NFIP. In Harwell's case, \$121,306 of excess funds were sent to the Government. This figure, \$121,306, is entered on Line 805-B.

**Please note that excess funds were sent on a weekly basis. Any WYO Company not making excess funds deposits at least once a week must be prepared to document for FEMA the reasons for its noncompliance.**

**8FF Line 805-C - Total Credit Card Payments:**

Brought forward from Exhibit VIII-C, Line 805-C. The amount is \$1,290.

**8GG Line 805 - Total Payments to The NFIP:**

The sum of Line 805-B, \$121,306; and Line 805-C, \$1,290 totals \$122,596. This total is then brought forward to Exhibit II, Line 215 and recorded as a credit.

◆ **EXHIBIT VIII-C - CREDIT CARD PAYMENTS TO THE NFIP**

**8AAA COMPANY (Name)** - Insert Company name.

**8BBB COMPANY (Number)** - Insert Company's NAIC number.

**8CCC PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

**8DDD Date/Amount Columns:**

Indicate in these columns the date and amount of credit card payments made by the credit card bank to the U.S. Treasury.

**8EEE Line 805-C:**

This line represents the total funds remitted to the U.S. Treasury through the use of the credit card payment mechanism.

Sum the individual amounts and insert on Line 805-C. In Harwell's case, \$1,290 was remitted. This total (\$1,290) is then brought forward to Exhibit VIII-B, Line 805-C.

For additional information on credit card processing, please refer to Part H of this Manual.

**NOTE:** Exhibit VIII-C is to be completed by only those Companies accepting credit card payments.

## EXHIBIT IX - RESTRICTED ACCOUNT DEPOSITS SUMMARY

- 9A COMPANY (Name)** - Insert Company name.
- 9B COMPANY (Number)** - Insert Company's NAIC number.
- 9C PERIOD ENDING** - Indicate the financial statement reporting period (Month/Year).

### RESTRICTED ACCOUNT DEPOSITS

**◆9D Date/Amount Columns:**

Indicate in these columns every instance in which your Company had booked a deposit into the restricted flood account, showing the date and amount.

Please note that Harwell deposited monies into the NFIP restricted account every day. Credit card payments should not be included in the amount.

**9E Line 900-Total Deposits for the Month:**

- ◆ Sum the individual deposits exclusive of credit card payments and insert the figure \$430,990 on Line 900.

You have now completed all the financial statement exhibits.

## **II. MONTHLY RECONCILIATION STATEMENTS**

- ◆ The purpose of these monthly statements is to have a WYO Company reconcile its reported financial statement entries for five items (Net Written Premiums, Net Federal Policy Fees, Net Paid Losses, Special Allocated LAE, and Case Loss Reserve), with statistical totals generated from its system. The burden of identifying and resolving any variance between reported financial statement entries and corresponding statistical detail rests with each Company. The following pages detail the completion of the five monthly reconciliation reports.

**MONTHLY RECONCILIATION - NET WRITTEN PREMIUMS**

<b>A</b> COMPANY NAME	<u>Harwell</u>	<b>D</b> CO. NAIC NUMBER	<u>25678</u>
<b>B</b> MONTH/YEAR ENDING	<u>May/19XX</u>	<b>E</b> DATE SUBMITTED	<u>6/20/XX</u>
<b>C</b> PREPARER'S NAME	<u>Robert George</u>	<b>F</b> TELEPHONE NO.	<u>111-111-1111</u>

MONTHLY  
FINANCIAL REPORT

MONTHLY STATISTICAL  
TRANSACTION REPORT

<b>G</b> NET WRITTEN PREMIUMS:		<b>TRANS. CODE</b>	<b>K RECORD COUNT</b>	<b>L PREMIUM AMOUNT</b>
\$ <u>400,000</u>	(INCOME STATEMENT - Line 100)	11	<u>997</u> ◆	<u>\$399,900</u>
		15	_____	_____
		17	_____	_____
<b>H UNPROCESSED STATISTICAL:</b>		20	<u>3</u>	<u>300</u>
(+) PRIOR MONTH'S	_____	23	_____	_____
(-) CURRENT MONTH'S	<u>1,000</u>			
<b>I OTHER - EXPLAIN:</b>		26	<u>3</u>	<u>1,200</u>
(1)	_____	29	_____	_____
(2)	_____	14 AND 81	_____	_____
		99	_____	_____
<b>J TOTAL:</b>	<u>\$399,000</u>	<b>M TOTAL:</b>	<u>1,003</u>	<u>\$399,000*</u>

\*(ADD 11 THROUGH 23  
LESS 26 AND 29)

**N** COMMENTS:

**◆ MONTHLY RECONCILIATION - NET FEDERAL POLICY FEES**

**A** COMPANY NAME Harwell                      **C** CO. NAIC NUMBER 25678  
**B** MONTH/YEAR ENDING May/19XX                      **D** DATE SUBMITTED 6/20/XX

MONTHLY  
FINANCIAL REPORT

MONTHLY STATISTICAL  
TRANSACTION REPORT

<b>E</b>	NET FEDERAL POLICY FEES: \$ <u>30,000</u>	<u>TRANS CODE</u>	<b>I</b> <u>RECORD COUNT</u>	<b>J</b> <u>FEE AMOUNT</u>
	(INCOME STATEMENT - Line 170)	11	<u>997</u>	<u>\$29,910</u>
		15	_____	_____
<b>F</b>	<u>UNPROCESSED STATISTICAL:</u>	17	_____	_____
	(+) PRIOR MONTH'S _____	20	_____	_____
	(-) CURRENT MONTH'S <u>90</u>			
<b>G</b>	<u>OTHER - EXPLAIN:</u>	23	_____	_____
	(1) _____	26	_____	_____
	(2) _____	29	_____	_____
<b>H</b>	TOTAL: <u>\$29,910</u>	<b>K</b>	TOTAL: <u>997</u>	<u>\$29,910</u>

\*(ADD 11 THROUGH 23  
LESS 26 AND 29)

**L** COMMENTS:

## MONTHLY RECONCILIATION - NET PAID LOSSES

**A** COMPANY NAME Harwell                      **C** CO. NAIC NUMBER 25678  
**B** MONTH/YEAR ENDING May/19XX                      **D** DATE SUBMITTED 6/20/XX

MONTHLY  
FINANCIAL REPORT

MONTHLY STATISTICAL  
TRANSACTION REPORT

		<u>TRANS. CODE</u>	<u>K RECORD COUNT RECOVERIES</u>	<u>L LOSS/PAID</u>
<b>E</b> 100 NET PAID LOSSES	<u>\$ 168,900</u>			
(INCOME STATEMENT - Line 115)				
UNPROCESSED <u>STATISTICAL:</u>		31	_____	\$ _____
<b>F</b> 140 (+)PRIOR MONTH'S	_____	34	_____	_____
		37	_____	
<b>G</b> 150 (-)CURRENT MONTH'S	_____	40	_____	_____
<b>H</b> 160 SALVAGE NOT TO BE REPORTED BY TRANSACTION (EXPLAIN)	_____	43	<u>3</u>	<u>169,000</u>
<b>I</b> 170 <u>OTHER-EXPLAIN:</u>		46 AND 61	_____	
(1)	_____	49	_____	_____
(2)	_____	64	_____	_____
		84 AND 87	_____	
		52 RECOVERY	<u>1</u>	_____
		SALVAGE		<u>100</u>
		SUBROGATION		_____
		67 RECOVERY	_____	_____
		SALVAGE		_____
		SUBROGATION		_____
<b>J</b> TOTAL:	<u>\$168,900</u>	<b>M</b> TOTAL:	<u>4</u>	<u>\$168,900*</u>

(SUM OF Lines 100,140,  
160, AND 170 LESS 150)

\*(ADD 31, 34, 40 THROUGH 64,  
LESS 52 AND 67)

**N** COMMENTS:

**MONTHLY RECONCILIATION - SPECIAL ALLOCATED LAE**

**A** COMPANY NAME Harwell

**C** CO. NAIC NUMBER 25678

**B** MONTH/YEAR ENDING May/19XX

**D** DATE SUBMITTED 6/20/XX

MONTHLY  
FINANCIAL REPORT

MONTHLY STATISTICAL  
TRANSACTION REPORT

**E** SPECIAL ALLOCATED  
LOSS ADJUSTMENT  
EXPENSES \$ 50  
(OTHER LOSS AND  
LAE CALC. - Line 655)

<u>TRANS. CODE</u>	<u>I RECORD COUNT</u>	<u>J SALAE AMOUNT</u>
71	_____	\$ _____
74	_____	_____

**F** UNPROCESSED  
STATISTICAL:

(+) PRIOR MONTH'S \_\_\_\_\_  
(-) CURRENT MONTH'S 50

**G** OTHER - EXPLAIN:

(1) \_\_\_\_\_  
(2) \_\_\_\_\_

**H** TOTAL: \$ - 0 -

**K** TOTAL: - 0 -      \$ - 0 -

**L** COMMENTS:



## MONTHLY RECONCILIATION - CASE LOSS RESERVE

<b>A</b>	COMPANY NAME	<u>Harwell</u>	<b>C</b>	CO. NAIC NUMBER	<u>25678</u>
<b>B</b>	MONTH/YEAR ENDING	<u>May/19XX</u>	<b>D</b>	DATE SUBMITTED	<u>6/20/XX</u>
<b>E</b>	NUMBER OF OPEN CLAIM CASES WITH RESERVES	<u>3</u>	<b>F</b>	TOTAL AMOUNT OF RESERVES	<u>\$60,000</u>

(BALANCE SHEET  
ITEMS-LINE 325  
CURRENT MONTH COLUMN)

## MONTHLY RECONCILIATION - NET WRITTEN PREMIUMS

- A COMPANY NAME** - Insert Company name.
- B MONTH/YEAR ENDING** - Indicate the financial/statistical reporting period (Month/Year).
- C PREPARER'S NAME** - Insert your name.
- D CO. NAIC NUMBER** - Insert Company's NAIC number.
- E DATE SUBMITTED** - Indicate the month/day/year of completion of this form.
- F TELEPHONE NO.** - Insert your telephone number.

As you will note, there are two columns on this reconciliation, with totals for each at the bottom. The objective is to have the figures in the "Total" columns agree.

**G Net Written Premiums (Monthly Financial Report Column):**

From the financial statement Exhibit I, Line 100, Current Month Column, insert the figure.

In Harwell's case, it is \$400,000. This represents the reported net written premium for the month.

**H Unprocessed Statistical (Monthly Financial Report Column):**

Under this header, you'll note two line items. The first (+ Prior Month's) is to be used to record any booked premium for the prior month that is not included on the statistical detail for that month.

In Harwell's case, there is no unprocessed statistical data for the prior month.

The second line item (- Current Month's) is used to record any booked and reported premium for the current month that does not have a statistical entry on the current month's tape.

In Harwell's case, \$1,000 of booked premium is not included in the statistical tape for the month of May. Therefore, an entry is made on this line of \$1,000.

**I Other - Explain (Monthly Financial Report Column):**

- ◆ Under this header, you will note two lines. These lines are to be used to insert justifiable entries that do not involve unprocessed statistical items to account for any differences between the monthly financial report

column entry and the monthly statistical transaction report figure. Examples of "Other-Explain" items would be resubmitted rejects, stale-dated checks, and breakage.

**J Total (Monthly Financial Report Column):**

Sum all the lines in the column. They are "Net Written Premium": \$400,000; "Unprocessed Statistical + Prior Month's": \$0; "Unprocessed Statistical - Current Month's": (\$1,000); and "Other - Explain": \$0. Insert the figure \$399,000 on the "Total" line.

**K Record Count (Monthly Statistical Transaction Report Column):**

- ◆ For each transaction code, insert the total records submitted. For example, transaction 11 (New Business) had a total of 997 records submitted on the statistical tape.

**L Premium Amount (Monthly Statistical Transaction Report Column):**

For each transaction code, insert the total premium value. For example, transaction 11 (New Business) premiums amount to a total of \$399,900.

**M Total (Monthly Statistical Transaction Report Column):**

- ◆ Sum all the lines in the Record Count Column. The entry is 1,003 (997 + 3 + 3). Sum all the lines in the Premium Amount Column. The entry is \$399,000 (\$399,900 + 300 - 1,200).

**N Comments:**

Use this space to explain your entries regarding financial and/or statistical submissions. In Harwell's case, there were no additional entries to report.

- ◆ Now compare the figures in both columns. If they agree, the reconciliation is completed. If not, review for the difference and make the necessary corrections.

## ◆MONTHLY RECONCILIATION - NET FEDERAL POLICY FEES

- A COMPANY NAME** - Insert Company name.
- B MONTH/YEAR ENDING** - Indicate the financial/statistical reporting period (Month/Year).
- C CO. NAIC NUMBER** - Insert Company's NAIC number.
- D DATE SUBMITTED** - Indicate the month/day/year of completion of this form.

**E Net Federal Policy Fees (Monthly Financial Report Column):**

From the financial statement Exhibit I, Line 170, Current Month Column, insert the figure.

In Harwell's case, it is \$30,000. This represents the net federal policy fees reported for this month.

**F Unprocessed Statistical (Monthly Financial Report Column):**

Under this header, you will again note two line items. The first (+ Prior Month's) is to be used to record any booked federal policy fees for the prior month that are not included in the statistical tape for that month.

In Harwell's case, there is no unprocessed statistical data for the prior month.

The second line item (- Current Month's) is used to record any booked and reported federal policy fees for the current month that do not have statistical data for them included on the current month's tape.

In Harwell's case, \$90 worth of booked federal policy fees is not included in the statistical tape for the month of May. Therefore, an entry of \$90 is made on this line.

**G Other - Explain (Monthly Financial Report Column):**

For Harwell, this line does not need to be completed.

**H Total (Monthly Financial Report Column):**

Sum all the lines in the column. They are "Net Federal Policy Fees": \$30,000; "Unprocessed Statistical + Prior Month's": \$0; "Unprocessed Statistical - Current Month's": (\$90); and "Other - Explain": \$0. Insert the figure of \$29,910 on the "Total" line.

**I Record Count (Monthly Statistical Transaction Report Column):**

For each transaction code in which a federal policy fee is applicable, insert the total of all records submitted. For example, Harwell has submitted a total of 997 statistical records that have a federal policy fee amount.

**J Fee Amount (Monthly Statistical Transaction Report Column):**

For all applicable transactions, insert the net federal policy fees total. For example, Harwell has submitted a net federal policy fees total of \$29,910.

**K Total (Monthly Statistical Transaction Report Column):**

Record the total in the "Record Count" column. The entry is 997. Record the total in the "Fee Amount" column. The entry is \$29,910.

**L Comments:**

Use this space to report additional information regarding financial and/or statistical reporting. In Harwell's case, there were no pertinent comments to report.

Now compare the figures in both columns. If they agree, this reconciliation is completed. If not, review for the difference and make the necessary corrections.

## ◆MONTHLY RECONCILIATION - NET PAID LOSSES

- A COMPANY NAME** - Insert Company name.
- B MONTH/YEAR ENDING** - Indicate the financial/statistical reporting period (Month/Year).
- C CO. NAIC NUMBER** - Insert Company's NAIC number.
- D DATE SUBMITTED** - Indicate the month/day/year of completion of this form.

As you will note, this reconciliation form has line numbers to assist you in its completion. The primary reason for the salvage, subrogation, and recovery lines is to adjust the "paid loss" statistical number to the "net paid loss" number indicated on your financial statement. As you will recall, the reported financial entry for losses is "net paid losses." This means that paid losses are reduced by any salvage, subrogation, or recoveries made. On the statistical side, the only way to arrive at "net paid losses" is to take the paid amount of loss transactions and have it reduced by the amount of salvage, subrogation, and recovery transactions. It is for that reason, this reconciliation was designed.

**E Line 100 - Net Paid Losses:**

- ◆From Exhibit I, Line 115, Current Month Column, insert the figure \$168,900.

**F Line 140 - Unprocessed Statistical (+) Prior Month's:**

In Harwell's case, there are no unprocessed statistical transactions for the prior month.

**G Line 150 - Unprocessed Statistical (-) Current Month's:**

This line is to be used to account for statistical transactions that have not been processed and have not been included in the current month statistical tape.

In Harwell's case, all transactions have been processed.

**H Line 160 - Salvage Not To Be Reported By Transaction (Explain):**

This line is to be used in situations where a major catastrophe has occurred. Because of the number of losses paid in this occurrence, it is inefficient and impractical to assign salvage collected from a third party to each individual loss paid. Consequently, the salvage collected in this situation would not have a statistical transaction associated with it. However, in order to reconcile, this amount would be included on Line 160 with an explanation as to what it represented.

**I Line 170 - Other-Explain:**

In Harwell's case, this line does not need to be completed.

**J Total:**

◆ Sum Line 100, \$168,900; Line 140, \$0; Line 160, \$0; and Line 170, \$0 = \$168,900. From this total, \$99,900, subtract Line 150, \$0. Enter the amount, \$99,900, on the "Total" line.

**K Record Count:**

For each transaction code, insert the total records submitted. For example, transaction 43 (Close Claim/Loss Payments) had a total of three records submitted on the statistical tape.

**L Loss/Paid Recoveries:**

◆ For each transaction code, insert the total dollar value. For example, transaction 43 (Close Claim/Loss Payments) totalled \$169,000.

**M Total:**

◆ Sum all the lines in the Record Count Column. The entry would be 4 (3+1). Sum all the lines in the Loss/Paid Recoveries Column. The entry would be \$168,900 (\$169,000 - 100).

**N Comments:**

Use this space to explain your entries regarding financial and/or statistical submissions. In Harwell's case, there was nothing additional to report.

Now compare figures in both columns. If they agree, this reconciliation is completed. If not, review for the difference and make the necessary corrections.

## MONTHLY RECONCILIATION - SPECIAL ALLOCATED LAE

- A COMPANY NAME** - Insert Company name.
- B MONTH/YEAR ENDING** - Indicate the financial/statistical reporting period (Month/Year).
- C CO. NAIC NUMBER** - Insert Company's NAIC number.
- D DATE SUBMITTED** - Indicate the month/day/year of completion of this form.

**E Special Allocated Loss Adjustment Expenses:**

Insert in the Monthly Financial Report Column the entry from Exhibit VI, Line 655, Current Month, \$50.

**F Unprocessed Statistical (Monthly Financial Report Column):**

- ◆ Since it was determined that there is no statistical entry on the monthly tape (May/19XX) for current month expenses because of a processing error, \$50 would be inserted on the "Current Month" line. It is imperative that when this entry is made, there is a documentation for this expense and that it will be processed in the next month's statistical tape.

**G Other - Explain (Monthly Financial Report Column):**

In Harwell's case, this line need not be completed.

**H Total (Monthly Financial Report Column):**

Sum all the lines in the column. They are "Special Allocated Loss Adjustment Expenses": \$50; "Unprocessed Statistical + Prior Month's": \$0; "Unprocessed Statistical - Current Month's": (\$50); and "Other - Explain": \$0. Insert \$0 on the "total" line.

**I Record Count:**

For each transaction code, insert the total records submitted. For example, transaction 71 (Special Allocated Loss Adjustment Expense) had no statistical records submitted.

**J SALAE Amount:**

For each transaction code, insert the total dollar value. For example, transaction 71 (Special Allocated Loss Adjustment Expense) had a dollar value amount of \$0, since there were no transactions submitted.



**K Total:**

Sum all the lines in the Record Count Column. The entry would be 0.  
Sum all the lines in the Amounts Column. The entry would be \$0.

**L Comments:**

Use this space to explain your entries regarding financial and/or statistical submissions. In Harwell's case, there was nothing additional to report.

Now compare figures in both columns. If they agree, the reconciliation is completed. If not, review for the difference and make the necessary corrections.

## MONTHLY RECONCILIATION - CASE LOSS RESERVE

- A COMPANY NAME** - Insert Company name.
- B MONTH/YEAR ENDING** - Indicate the financial/statistical reporting period (Month/Year).
- C CO. NAIC NUMBER** - Insert Company's NAIC number.
- D DATE SUBMITTED** - Indicate the month/day/year of completion of this form.
- E Number of Open Claim Cases With Reserves:**
- ◆ From your records, indicate the total number of "open case reserves" for each building and contents claim as of the end of the reporting period.
- F Total Amount of Reserves:**
- ◆ From your records, indicate the total amount of the open case reserves for building and contents. Now compare this total amount with the figure shown on Exhibit III, Line 325, Current Month. If they agree, the reconciliation is completed. If not, review for the difference and make the necessary corrections.

You have now completed the monthly reconciliation statements.

### ◆III. CERTIFICATION STATEMENTS

After the monthly financial statements and reconciliations have been prepared, the last items to be completed are certification statements. These statements should be signed by responsible officers within the Company or their designee(s).

There are two certification statements to be signed. Below is a description of how each one should be prepared. In addition, examples of completed statements are presented.

#### A. CERTIFICATION STATEMENT FOR MONTHLY FINANCIAL AND STATISTICAL RECONCILIATION REPORTS

This statement relates to the entries recorded on both the financial statements and on the reconciliation statements. It certifies that the entries on both documents have been reviewed and that all information included on these documents are the representation of the Company. If a material modification is to be made, an explanation should be provided on this form.

The form is to be completed by the responsible financial officer or designee who inserts the Company's name and the statement's reporting period (May 19XX) on the second line of the first paragraph. This form is then signed and dated by the financial officer or designee who reviewed the documentation. Please review the example, and note that all information required to be completed is underlined.

#### B. CERTIFICATION STATEMENT FOR MONTHLY STATISTICAL TRANSACTION REPORT

This statement relates to the data contained on the monthly statistical tape from which certain balance totals (Net Written Premium, Net Paid Losses, Net Federal Policy Fees, and Special Allocated Loss Adjustment Expenses) are developed. It certifies that these balance totals used in the reconciliation statement processing are the representation of the Company. If there is a material modification to be made, an explanation should be provided on this form.

This form is completed by the responsible reporting officer or designee who indicates the statistical transaction totals pertaining to the reporting period (May/19XX). On the last line, the Company's name would be inserted.

The form is then signed and dated by the responsible reporting officer or designee who reviewed the statistical documentation. Please review the example, and you'll note that all information required to be completed is underlined.

**NOTE:** Certification Statements can be signed only by those individuals so designated by the Company. The lists (see examples on the following pages) of signers for each certification statements are completed by the Company's appropriate authorization officer. A record of authorized signees is maintained by the NFIP Bureau and Statistical Agent.

Any change or addition to the designated signer list must be communicated to the NFIP Bureau and Statistical Agent. This can be done by contacting your WYO Account Executive.

## CERTIFICATION STATEMENTS

### A. CERTIFICATION STATEMENT FOR MONTHLY FINANCIAL AND STATISTICAL RECONCILIATION REPORTS

I have reviewed the accompanying financial and statistical reconciliation reports of Harwell Company as of May/19XX. All information included in these statements is the representation of the Harwell Company.

Based on my review (with the exception of the matter(s) described in the following paragraphs, if applicable), I certify that I am not aware of any material modifications that should be made to the accompanying reports.

SIGNED Barbara Ann Gila  
(Responsible Financial Officer)

DATE June 20, 19XX

### B. CERTIFICATION STATEMENT FOR MONTHLY STATISTICAL TRANSACTION REPORT

I have reviewed the accompanying statistical transaction report control totals in conjunction with appropriate statistical reconciliation reports for the MAY/19XX reporting period. All information included in these reports is the representation of the Harwell Company.

SIGNED Trisha Michelle Lore  
(Responsible Reporting Officer)

DATE June 20, 19XX

**SIGNATURE AUTHORIZATION FOR MONTHLY  
FINANCIAL AND STATISTICAL RECONCILIATION REPORTS**

Write Your Own Company: \_\_\_\_\_

I hereby designate the individual(s) listed below as the responsible financial officer to act as signatory for the Financial and Statistical Reconciliation Reports for my company. This individual(s) understands that he/she is responsible for the accuracy and completeness of these reports.

Authorizing Officer of the Company: \_\_\_\_\_  
(Please type name and title)

Signature and Date: \_\_\_\_\_

Responsible Financial Officer(s):

Company Individual(s)

Vendor Individual(s)

1. \_\_\_\_\_  
(Please type name)

1. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

2. \_\_\_\_\_  
(Please type name)

2. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

3. \_\_\_\_\_  
(Please type name)

3. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

Return to: NFIP Bureau and Statistical Agent  
10115 Senate Drive  
Lanham, MD 20706-1833  
Attn: WYO Account Executive

**SIGNATURE AUTHORIZATION FOR MONTHLY  
STATISTICAL TRANSACTION REPORT**

Write Your Own Company: \_\_\_\_\_

I hereby designate the individual(s) listed below as the responsible reporting officer to act as signatory for the Statistical Transaction Report for my company. This individual(s) understands that he/she is responsible for the accuracy and completeness of these reports.

Authorizing Officer of the Company: \_\_\_\_\_  
(Please type name and title)

Signature and Date: \_\_\_\_\_

Responsible Reporting Officer(s):

Company Individual(s)

Vendor Individual(s)

1. \_\_\_\_\_  
(Please type name)

1. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

2. \_\_\_\_\_  
(Please type name)

2. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

3. \_\_\_\_\_  
(Please type name)

3. \_\_\_\_\_  
(Please type name)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Please type title)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

Return to: NFIP Bureau and Statistical Agent  
10115 Senate Drive  
Lanham, MD 20706-1833  
Attn: WYO Account Executive

## ◆PART C

### MONTHLY STATISTICAL TAPE FRONT-END BALANCING PROCEDURES

As stipulated in the WYO Financial Control Plan and the Transaction Record Reporting and Processing (TRRP) Plan, each WYO Company is required to have its monthly statistical tape received at the NFIP facility no later than the last day of the calendar month following each month's closing. For example, the statistical tape for May's reporting period must be received at the NFIP facility no later than June 30, 19XX.

According to the WYO Financial Control Plan and TRRP Plan, each WYO Company must submit with its tape a WYO TRRP Tape Specifications Transmittal Document (refer to the completed example) and reconciliation statements for net written premiums, net federal policy fees, net paid losses, and special allocated loss adjustment expenses. For these statements, detailed statistical transaction information (transaction codes, record counts, and dollar amounts) must be provided. As an option, a duplication of the reconciliation statements, which accompanies your financial statements (Exhibits I-IX), may be submitted with the statistical tape to satisfy this reporting requirement.

The Harwell Insurance Company has opted to complete both the financial and statistical columns of the reconciliation statements. A copy of these pages was sent with the monthly statistical tape, and a copy was submitted with the monthly financial statements. A full description of the completion of these reconciliation statements was previously presented in this Manual.

When the NFIP Bureau and Statistical Agent receives the Harwell Insurance Company's statistical tape and reconciliation statements, a front-end tape balancing procedure is performed. The statistical tape is first read to generate reports for net written premium, net federal policy fees, net paid losses, and special allocated loss adjustment expenses. Each report indicates record count for each transaction and a total record count. The report also shows the dollar value for each transaction and a total dollar amount. These reports are then compared with the reconciliation statements that Harwell submitted with the statistical tape. Any discrepancy found in the dollar amount or record count will require Harwell to correct either the statistical tape or the respective reconciliation statement before further NFIP Bureau processing will occur. The data on that tape will not be included in various monthly statistical reports unless a corrected tape and/or reconciliation statement is received by the required due date. The Company will be notified by the NFIP Bureau accounting staff of a discrepancy in dollar amounts.

The discrepancy will also be reported to FIA representatives and to the WYO Standards Committee. Consequently, it is extremely critical that each WYO Company validate statistical transaction dollar amounts and record counts reflected on the reconciliation statements prior to submission. An excellent way to prevent a tape rejection would be to submit the tape to the NFIP Bureau and Statistical Agent one week or more before the month-end due date. If this is done and an error is detected, the WYO Company will still have enough time to correct the erroneous tape and resubmit it. If the tape figures correspond to the reconciliation statement amounts and are received by the last day of the month, the tape will not be rejected and the subsequent complications will not result.



In Harwell's case, the statistical reports corresponded to the reconciliation statements in terms of both record counts and dollar amounts. Therefore, the statistical tape was accepted and processed.

◆WYO TRRP TAPE SPECIFICATIONS TRANSMITTAL DOCUMENT

DATE SENT: June 20, 19XX

COMPANY NAME: Harwell

NAIC NUMBER: 25678

ADDRESS: 1462 Crofton Lane, Spin, US 11111-1111

REEL NUMBER(S) OF ENCLOSED TAPES: 1

TAPE LABEL: Standard Label

FILE NAME (DSN): TWYO.MAYXX.W25678

DENSITY: 6250 LRECL: 280 BLKSIZE: 2800

TOTAL NUMBER OF RECORDS: 3285

CONTACT PERSON: LORETTA MARIE

CONTACT TELEPHONE NUMBER: 111-111-1112

IBU NUMBER: \_\_\_\_\_ (NFIP USE ONLY)

## PART D

### NFIP BUREAU AND STATISTICAL AGENT PROCESSING OF REQUIRED FINANCIAL DOCUMENTS

#### ◆I. FINANCIAL STATEMENTS

Upon receipt of the Financial Statements in hardcopy, on diskette, or on the Bulletin Board Service (BBS), the NFIP Bureau and Statistical Agent's accounting personnel will review them for completeness and accuracy. If any problem is noted, a staff member will contact the preparer for clarification. After this review, Bureau personnel will input, via CRT terminal, statement entries from hardcopy documents to produce an individual WYO Company statement, formatted according to FIA's reporting specifications. If statements are received on diskettes or on BBS, they are processed to produce an individual WYO Company statement.

After all of the individual reports are produced, they are combined into a WYO consolidated financial statement and formatted according to FIA's specifications.

The WYO consolidated statement is then combined with the NFIP Servicing Agent statement to produce a consolidated NFIP financial statement.

#### II. RECONCILIATION STATEMENTS

Upon receipt of the Monthly Reconciliation Statements, the Bureau Accounting staff review them to ensure that explanations for differences and totals are valid. Financial figures are checked against the monthly statement, and statistical transaction totals are validated against report totals taken from the monthly run of the submitted statistical tape.

Any discrepancies or questions resulting from this review process will be directed to the WYO Company's preparer of the reconciliation statements.

#### III. CERTIFICATION STATEMENTS

Upon receipt of the Monthly Certification Statements, the Bureau Accounting staff reviews them for authorized signees and appropriate date. If a problem is noted, Bureau staff will call the WYO Company.

**NOTE:** The WYO Company representative provides to its WYO Account Executive a list of individuals authorized to sign the Certification Statements.

## ◆PART E

### SUPPLEMENTAL CLAIM PAYMENT PROCEDURES

On losses that require reopening, the additional loss adjustment expense (LAE) for the supplemental claim handling is calculated as follows:

- It is the larger of the Closed Without Payment (CWOP) fee (\$125.00), or the difference between the original LAE taken and the revised LAE based upon the total of all claim payments made (original + supplemental payment). With the use of either criterion, the Minimum LAE to be paid for the handling of a supplemental claim will be the CWOP FEE SCHEDULE amount (\$125.00).

To assist you in understanding the supplemental claim payment expense calculation and its associated financial and statistical reporting requirements, three examples have been developed. These examples should assist you in following the appropriate procedures when processing a supplemental claim payment expense.

#### EXAMPLE A

When the supplemental claim results in no additional claim payment, the minimum LAE amount (CWOP) Fee (\$125.00) is earned. For reporting and statistical reconciliation, this LAE (\$125.00) is to be treated as a Special Allocated Loss Adjustment Expense (SALAE) - Type 2. Therefore, use Exhibit VI - Line 655 on your monthly financial statement to report the SALAE. Because this is a SALAE - TYPE 2 and is not greater than \$500.00, prior FIA approval (authorization letter) is not needed. Next, follow the procedures outlined in Accounting Training Assistance Bulletin (ATAB) 92-1, which require that a listing be attached to your financial statement detailing all SALAEs by policy number, date of loss, SALAE amount, and type code.

For statistical reporting, SALAE transaction (71) should be used.

#### EXAMPLE B

When the supplemental claim results in an additional claim payment and the calculated LAE for both the original and the supplemental claim payments is \$125.00 or greater than the original LAE taken, reverse the LAE previously reported and insert the new LAE amount on the financial statement Fee Schedule (Exhibit V-A, B, C, D, or E of the Financial Statements).

No SALAE financial and statistical reporting is required in this situation.

### EXAMPLE C

When the supplemental claim results in an additional claim payment and the calculated LAE for both the original and the supplemental claim payment is **less than** \$125.00 of the original LAE taken, the steps outlined below must be followed:

- Reverse the LAE previously reported and insert the new LAE amount on the financial statement Fee Schedule (Exhibit V-A, B, C, D, or E of the Financial Statements).
- Compute the difference between the new LAE (based on both the original and the supplemental claim payments) and the original LAE taken. Subtract this difference from \$125.00. This amount should be treated as a Special Allocated LAE - Type 2. Therefore, use Exhibit VI- Line 655 on your monthly financial statement to report the SALAE. Since this is a SALAE - Type 2 and is not greater than \$500.00, no prior FIA approval (authorization letter) is required. Next, follow the procedures outlined in Accounting Training Assistance Bulletin (ATAB) 92-1, which require a listing to be attached to your financial statement detailing all SALAEs by policy number, date of loss, SALAE amount, and type code.

For statistical reporting, SALAE transaction (71) should be used.

## PART F

### ◆ CASH MANAGEMENT PROCEDURES

#### I. DEPOSIT OF NFIP MONIES

All premiums (net of expense allowances), federal policy fees, and interest income relating to the WYO flood insurance program shall be deposited in a special account in an FDIC-regulated bank separate from all other Company business. For purposes of clarification, premiums collected will also include all "suspense" items, not only posted policies. In addition, all premiums and federal policy fees collected for policies with a future effective date must be deposited into the WYO Company's restricted account as soon as processing allows. A WYO Company may not use flood monies to earn interest for its Company. Once monies have been identified as NFIP funds, any interest earned on processing accounts, restricted accounts, satellite accounts, lockboxes, or other accounts must be paid to the NFIP.

Using existing cash flow systems of each WYO Company, the flood insurance cash activity should be monitored on the same basis as all other Company funds. To supplement this cash monitoring process, particularly the timely deposit of funds, WYO Companies are required to report all monthly restricted account deposits on Exhibit IX of the financial statements. The WYO Company must deposit flood insurance funds in the restricted account as soon as possible following collection of the premium. Each WYO Company must exert a good faith effort to comply with this intent. Each WYO Company must be prepared to document and explain how its individual procedures satisfy the intent.

In order to facilitate timely deposit of WYO funds, a WYO Company may, at its discretion, operate more than one restricted account. The Company will continue to supply FIA with one (1) financial report encompassing all such accounts. In addition, the Company will be allowed only one (1) Letter of Credit.

To ensure that the intent of overall proper cash management is achieved, each WYO Company shall outline its proposed cash management procedures for review by FIA. These procedures shall be transmitted to the Company's WYO Account Executive prior to the start of WYO operations. In addition, FIA may request Companies currently writing to update their cash management procedures or clarify a specific one.

To ensure the proper control and maintenance of the flood insurance account, WYO Companies must establish a general ledger to record transactions and provide supporting detail for the cash balances. In addition, monthly reconciliations between bank statements and the general ledger cash balances must be performed.

## **II. TRANSFER OF EXCESS FUNDS**

Transfer of excess funds from the restricted flood insurance account to the U.S. Treasury is mandatory and should be performed at least once a week. Excess funds are defined as those funds in the restricted account less \$5,000 and established payables (Exhibit III, Line 310). Monies in the premium suspense account are to be included in the excess funds calculation. In addition, premiums and federal policy fees collected for policies with future effective dates should be included in the excess funds calculation. Established reserves for claim payments and claim loss adjustment expenses are not included when calculating the excess funds amount.

The WYO Company or vendor must transmit excess funds to FEMA on at least a weekly basis. If weekly transfers are not made, a WYO Company must be prepared to document the reasons for FIA. These excess funds must be remitted through an Automated Clearinghouse (ACH) established by FEMA. No excess funds checks should be sent directly to the NFIP Bureau and Statistical Agent. The WYO Account Executive assigned to each Company should be contacted to coordinate the establishment of the ACH. For more details on the ACH, please refer to the *Write Your Own Accounting Procedures Manual*.

## **III. WYO COMPANY EXPENSE REIMBURSEMENT**

- The appropriate expense allowance for the WYO Company may be taken at the time the policy is processed and reported on the financial statement.
- Allocated loss adjustment expenses based on the Fee Schedules can be taken at the time the claim payment is made.
- Unallocated loss adjustment expenses may be taken at the time the reserve is established (with any necessary adjustments made as the incurred claim develops) or at the time the claim case is closed.
- Special allocated loss adjustment expense reimbursement procedures are described in this manual and in the *Write Your Own Accounting Procedures Manual*.

## PART G

### STALE-DATED CHECK PROCEDURES

The following procedures should be used in processing premium and claim checks that are outstanding (not cashed) for 6 months and later:

#### Premium Checks

1. Void check(s).
2. Increase your net written premium (Exhibit I, Line 100) for the reporting month by the amount of the check(s).
3. Increase your cash account (Exhibit III, Line 300, Column A) by the amount of the voided check(s).
4. Your expense allowance for written premium (Exhibit IV, Line 410, Current Month Column) will be increased because of the increase in net written premium.
- ◆5. On your "Net Written Premiums" monthly reconciliation statement, show in the "Other-Explain" line the amount (\$1,000) of the voided check(s), and then subtract this figure from your net written premium total. Identify this entry on the reconciliation statement by the words "Stale-Dated Check(s)." This adjustment is required since no statistical transaction will be generated for the voided check(s). (See EXAMPLE "A" on page G-2.)
- ◆6. Maintain for 3 years the details supporting the voided check(s).

#### Claim Checks

1. Void check(s).
2. Decrease your net paid losses (Exhibit I, Line 115) for the reporting month by the amount of the check(s).
3. Increase your cash account (Exhibit III, Line 300, Column A) by the amount of the voided check(s).
- ◆4. On your "Net Paid Losses" monthly reconciliation statement, show in the "Other-Explain" line the amount (\$2,000) of the voided check(s), and then add this figure to your reported net paid losses total. Identify this entry on the reconciliation statement by the words "Stale-Dated Check(s)." This adjustment is required since no statistical transaction will be generated for the voided check(s). (See EXAMPLE "B" on page G-3.)
- ◆5. Maintain for 3 years the details supporting the voided check(s).



◆EXAMPLE "A"

**MONTHLY RECONCILIATION - NET WRITTEN PREMIUMS**

COMPANY NAME Harwell CO. NAIC NUMBER 25678  
 MONTH/YEAR ENDING May/19XX DATE SUBMITTED 6/20/XX  
 PREPARER'S NAME Robert George TELEPHONE NO. 111-111-1111

<u>MONTHLY FINANCIAL REPORT</u>		<u>MONTHLY STATISTICAL TRANSACTION REPORT</u>		
NET WRITTEN		TRANS. RECORD		
PREMIUMS	\$ <u>401,000</u>	<u>CODE</u>	<u>COUNT</u>	<u>PREMIUM AMOUNT</u>
	(INCOME STATEMENT - LINE 100)	11	<u>998</u>	<u>\$400,900</u>
		15	_____	_____
		17	_____	_____
UNPROCESSED STATISTICAL:		20	<u>3</u>	<u>300</u>
(+) PRIOR MONTH'S	_____	23	_____	_____
(-) CURRENT MONTH'S	_____			
<u>OTHER - EXPLAIN:</u>		26	<u>3</u>	<u>1,200</u>
(1) STALE-DATED CHECKS	<u>(1,000)</u>	29	_____	_____
(2)	_____			
		14 AND 81	_____	
		99	_____	
TOTAL:	<u>\$400,000</u>	TOTAL:	<u>1,004</u>	<u>\$400,000*</u>

\*(ADD 11 THROUGH 23, LESS 26 AND 29)

COMMENTS:

◆EXAMPLE "B"

MONTHLY RECONCILIATION - NET PAID LOSSES

COMPANY NAME	<u>Harwell</u>	CO. NAIC NUMBER	<u>25678</u>
MONTH/YEAR ENDING	<u>May/19XX</u>	DATE SUBMITTED	<u>6/20/XX</u>

		<u>TRANS. CODE</u>	<u>RECORD COUNT</u>	<u>LOSS/PAID RECOVERIES</u>
100 NET PAID LOSSES \$ <u>166,900</u> (INCOME STATEMENT - LINE 115)				
<u>UNPROCESSED     STATISTICAL:</u>		31	<u>        </u>	\$ <u>        </u>
140 (+) PRIOR MONTH'S	<u>        </u>	34	<u>        </u>	<u>        </u>
		37	<u>        </u>	
150 (-) CURRENT MONTH'S	<u>        </u>	40	<u>        </u>	<u>        </u>
160 SALVAGE NOT TO BE REPORTED BY TRANSACTION (EXPLAIN)	<u>        </u>	43	<u>    3</u>	<u>  169,000</u>
170 <u>OTHER - EXPLAIN:</u>		46 AND 61	<u>        </u>	
(1) STALE-DATED CHECKS	<u>  + 2,000</u>	49	<u>        </u>	<u>        </u>
(2)	<u>        </u>	64	<u>        </u>	<u>        </u>
		84 AND 87	<u>        </u>	
		52 RECOVERY	<u>    1</u>	<u>        </u>
		SALVAGE		<u>    100</u>
		SUBROGATION		<u>        </u>
		67 RECOVERY	<u>        </u>	<u>        </u>
		SALVAGE		<u>        </u>
		SUBROGATION		<u>        </u>
TOTAL:	<u>\$ 168,900</u>	TOTAL:	<u>    3</u>	<u>\$ 168,900</u>

(SUM OF LINES 100,140,  
160, AND 170 LESS 150)

\*(ADD 31, 34, 40 THROUGH 64,  
LESS 52 AND 67)

COMMENTS:

## ◆PART H

### CREDIT CARD PROCESSING

In pursuit of the goal to simplify the NFIP and to promote policy growth, the Federal Insurance Administration (FIA) has approved the use of credit cards to pay flood premiums. To encourage a company's implementation of credit card processing, minimum financial and statistical reporting requirements were established, and all bank service charges associated with credit card transactions will be paid by the U.S. Treasury. For more information on the use of the credit card payment mechanism and how to get started, please refer to the appropriate section of the *WYO Accounting Procedures Manual*.

As stated earlier, the processing procedures and the financial and statistical reporting requirements for the use of the credit card payment mechanism are minimal. At this point, it will be helpful to note the processing procedures and the financial and statistical reporting requirements before completing an example.

#### I. PROCESSING PROCEDURES

- To charge the purchase of a flood insurance policy to a credit card, the following billing information is required:
  - Date of charge
  - Name of cardholder
  - Account number
  - Card expiration date
  - Dollar amount of charge
  - Cardholder's signature

If a credit card charge is taken by telephone, the cardholder's signature is not required.

- In addition, the following cancellation disclaimer must be placed not more than one quarter of an inch below the cardholder's signature line. The disclaimer reads:

"This policy is not subject to cancellation for reasons other than those set forth in the National Flood Insurance Program rules and regulations. In matters involving billing disputes, cancellation is not available other than for billing processing error or fraud."

For credit card charges taken by telephone, the cancellation disclaimer should be read to the caller.

Charge card billing information data should be attached to the new business application or included with the request for renewal update data. It is the WYO Company's decision as to how this billing information is obtained and in what format. However, this credit card bill information must be retained for at least 3 years for billing dispute purposes and for the creation of an audit trail.

- Monies generated through the credit card payment mechanism will be sent directly to the U.S. Treasury and not to the Company's restricted account. The U.S. Treasury will receive the gross amount of the policy premium and the federal policy fee. The monies received will include the bank discount charge.
- There will be a 2-day delay before the U.S. Treasury receives payment for an approved credit card transaction. For example, the funds for a transaction approved on Monday will be received by the U.S. Treasury by Wednesday.
- Reports for all credit card approval and payment transactions will be provided on a daily basis.

## II. FINANCIAL AND STATISTICAL REPORTING REQUIREMENTS

- For financial statement reporting, use Exhibit VIII-C entitled "Credit Card Payments to the NFIP" to report all credit card payment transactions. This is the only additional financial statement reporting requirement.
- For *Transaction Record and Reporting Processing (TRRP) Plan* statistical reporting, there are two requirements.
  - The data element field entitled "Premium Payment Indicator" must be completed if a policy is paid by credit card. This special indicator (C) should be used to identify only those flood policies which have been paid by credit card.
  - Use the special cancellation code (70) only if the policy is canceled because of credit card processing error or fraud.

**NOTE:** Since credit card proceeds will be sent directly to the U.S. Treasury, WYO Companies will have to build a mechanism to post those payments to their general ledger system.

### CREDIT CARD PROCESSING EXAMPLE

As noted earlier, the Harwell Insurance Company has just established the credit card payment mechanism and has completed its first month of activity. For the month, one new business and two renewal policies were paid by credit card. The total amount of premium paid by credit card was \$1,200. The total amount of federal policy fee paid by credit card was \$90. The total amount of all credit card payments for the month was 1,290.

As previously mentioned, there is only one financial statement reporting requirement for credit card payments. In this case, simply go to Exhibit VIII-C entitled "Credit Card Payments to the NFIP" and insert the date and the amount of the credit card payments. Then sum all the credit card payments for the month and insert the total (\$1,290) on Line 805-C. Next, bring forward that total to the Exhibit VIII-B entitled "Cash Payments

to the NFIP," Line 805-C, and insert the amount. Please refer to the completed Exhibits VIII-B and VIII-C Examples in Part B of this Manual.

**NOTE:** The total amount of credit card payments inserted on Line 805-C, Exhibit VIII-C, is a net figure. It will include any endorsement or cancellation refunds processed by credit card. The total will also include any credit card chargeback activity.

Congratulations! You have finished the financial reporting of the credit card payments for a month. That is all you have to do!

Please remember for TRRP Plan reporting to insert a "C" in the data element field entitled "Premium Payment Indicator" to identify those flood policies which have been paid by credit card.

## **PART I**

### **LISTING OF PERTINENT WYO ACCOUNTING/FINANCIAL DOCUMENTS**

- Financial Assistance/Subsidy Arrangement
- *Write Your Own (WYO) Accounting Procedures Manual*
- A Plan to Maintain Financial Control for Business Written Under the Write Your Own (WYO) Program
- *Transaction Record Reporting and Processing (TRRP) Plan* for the Write Your Own (WYO) Program
- *Write Your Own Operational Overview*

