



Impact of the Length of the Claims Adjustment Process on the Administrative Costs of Disasters

July 19, 2016

Fiscal Year 2015 Report to Congress



**Homeland
Security**

Federal Emergency Management Agency

Foreword

July 19, 2016

I am pleased to present the following report, “Impact of the Length of the Claims Adjustment Process on the Administrative Costs of Disasters,” which has been prepared by the Federal Emergency Management Agency.

The report has been compiled pursuant to language in Senate Report 113-198, which accompanies the *Fiscal Year 2015 Department of Homeland Security Appropriations Act* (P.L. 114-4).

Pursuant to congressional requirements, this report is being provided to the following Members of Congress:

The Honorable John R. Carter
Chairman, House Appropriations Subcommittee on Homeland Security

The Honorable Lucille Roybal-Allard
Ranking Member, House Appropriations Subcommittee on Homeland Security

The Honorable John Hoeven
Chairman, Senate Appropriations Subcommittee on Homeland Security

The Honorable Jeanne Shaheen
Ranking Member, Senate Appropriations Subcommittee on Homeland Security

Inquiries relating to this report may be directed to me at (202) 646-3900 or to the Department’s Deputy Under Secretary for Management and Chief Financial Officer, Chip Fulghum, at (202) 447-5751.

Sincerely,



W. Craig Fugate
Administrator
Federal Emergency Management Agency





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Table of Contents

I.	Legislative Language	1
II.	Background	2
III.	Analysis and Discussion	3
IV.	Conclusion.....	4
V.	Appendices	5
	Appendix 1 – NFIP Fee Schedule.....	5
	Appendix 2 – Acronym List.....	7

I. Legislative Language

This document has been compiled in response to language in Senate Report 113-198, which accompanies the *Fiscal Year 2015 Department of Homeland Security Appropriations Act* (P.L. 114-4). Senate Report 113-198 states as follows:

The Committee understands the importance of quickly processing claims filed by disaster survivors. FEMA is directed to provide a report to the Committee, and other relevant committees of jurisdiction, on the impact of the length of the claims adjustment process on the administrative costs of disasters no later than 120 days after the date of enactment of this act. The report shall also identify any issues associated with the availability of claims adjusters.

II. Background

The National Flood Insurance Act of 1968, as amended, 42 U.S.C. § 4001 et seq., recognizes that flood insurance is not generally available from private insurance providers and authorizes the Federal Government to administer a program to make affordable flood insurance generally available nationally. Federal flood insurance may be sold only in communities that participate in the National Flood Insurance Program (NFIP) and that enact and enforce appropriate floodplain management measures. NFIP claims and expenses are paid from the National Flood Insurance Fund.

The Federal Emergency Management Agency (FEMA) promulgates the Standard Flood Insurance Policies (SFIP) through regulation. The NFIP sells and administers the SFIPs in two ways: through approximately 82 participating Write Your Own (WYO) insurance companies under the Financial Assistance/Subsidy Arrangement (the “Arrangement”), codified at 44 Code of Federal Regulations (CFR) Part 62, Appendix A, see 44 CFR § 62.23, and directly by FEMA using the contract services of the Direct Servicing Agent (DSA). The Arrangement identifies the relative obligations of FEMA and WYO companies and sets forth a procedure by which WYO companies are reimbursed for expenses related to implementation of the NFIP, including the fee schedule for reimbursement of adjuster expenses.

III. Analysis and Discussion

The SFIPs set out the time frame within which it is expected that the claims process will be completed. The policy compensates an adjuster examining the loss within a reasonable amount of time after notice of the loss, and requires the policyholder to send a proof of loss within 60 days after the loss. FEMA recognizes that individual claims may require more time and that, in the event of a catastrophic event, the time frame for the entire claims process may need to be expanded, and has liberally granted individual and programmatic waivers when appropriate. Regardless of the time allowed to complete a claim, the NFIP does not incur additional expenses to adjust claims. The content of this report is based on our standard operating procedures and does not reflect exceptional or extraordinary circumstances.

Whether an SFIP is sold directly by FEMA or by a WYO company, most, if not all, NFIP claims are evaluated by NFIP-certified adjusters through independent adjusting firms hired by the WYO company or DSA. A WYO company also may use staff adjusters to evaluate flood claims. FEMA compensates for adjusting costs through the established loss adjustment fee schedule, see 44 CFR § 62.23(i)(3) and the appendix attached hereto. The adjuster fee schedule provides for payment on the basis of the size of individual claims, and the independent adjuster's total payment depends on the size and number of claims adjusted. Administrative costs for the adjustment of NFIP claims do not increase or otherwise correlate to the length of time required for the process to come to completion.

Particularly in a large flooding event, many adjusters travel to the affected area and incur travel expenses to adjust claims. The NFIP encourages prompt adjustment of claims, and the typical adjuster will seek to maximize income and reduce expenses by working weekdays and weekends.

FEMA recognizes that at any particular time there is a limited pool of available certified adjusters and has identified several ways to manage strained NFIP certified adjuster resources in large events:

1. FEMA authorizes emergency adjuster certification for WYO companies and independent adjusting firms by conducting additional adjuster certification workshops in the affected areas.
2. FEMA may provide a limited waiver and allow adjusters with expired certifications to adjust flood claims for a limited period of time.

IV. Conclusion

The NFIP's cost to adjust claims is based on the fee schedule, which compensates independent adjusters on the basis of the size of a claim. Compensation does not vary on the basis of the time needed to complete the examination of a loss.

V. Appendices

Appendix 1 – NFIP Fee Schedule

NFIP Fee Schedule

For Claims with Dates of Loss on or after October 25, 2012

Claim Range *	Fee
<i>Erroneous Assignment</i> ¹	\$90.00
<i>Claim Withdrawn</i> ²	\$90.00
<i>Closed Without Payment (CWOP)</i> ³	\$370.00
.01 - \$1,000.00	\$490.00
1,000.01 – 5,000.00	\$750.00
5,000.01 – 10,000.00	\$970.00
10,000.01 – 15,000.00	1,100.00
15,000.01 – 25,000.00	1,200.00
25,000.01 – 35,000.00	1,390.00
35,000.01 – 50,000.00	1,640.00
50,000.01 – 100,000.00	3.4% but not less than \$1,760
100,000.01 – 250,000.00	2.6% but not less than \$3,400
250,000.01 – 1,000,000.00	2.4% but not less than \$6,500
1,000,000.01 and up	2.1% but not less than \$24,000

The NFIP reserves the right to withhold compensation on adjustment work that is deemed:

- 1) **Not to comply with NFIP's standards; or**
- 2) **Improperly prepared, thereby requiring the claim to be substantially readjusted; or**
- 3) **Not timely adjusted requiring reassignment.**

*** Claim Range** — Based on Gross Loss:

Gross loss shall mean the agreed cost to repair before application of depreciation or the applicable deductible(s), but subject to policy limitations (such as those dollar amounts specified in Coverage B – Personal Property Special Limits and Coverage C – Other Coverages, Loss Avoidance Measures and Property Removed to Safety) and exclusions.

For the purpose of this schedule, should the loss exceed the available coverage, gross loss shall mean the total amount of available coverage.

If the claim involves salvage “buy-back,” gross loss shall mean the amount of the claim before the salvage value is deducted subject to the total amount of coverage.

All adjusting expenses associated with the proper conclusion of a claim are considered in this fee schedule.

In the event of a claim subject to the Closed Without Payment (CWOP) fee of \$370.00, an adjuster may submit a request for a Special Allocated Loss Adjustment Expense (SALAE) for mileage for distances traveled (in excess of 100 miles) at the prevailing Internal Revenue Service standard mileage reimbursement rate on the date of inspection. Mileage shall be pro-rated between assignments.

NFIP Fee Schedule Guidance

¹ **Erroneous Assignment** — occurs when a loss is assigned to more than one adjuster or more than one adjusting firm. One adjuster will be removed from the claim and will receive a fee based on an erroneous assignment.

² **Claim Withdrawn** — refers to a claim where the insured elects to withdraw the claim after the NFIP Direct Servicing Agent, a WYO carrier or the WYO carrier's service provider / vendor assigns the claim to an adjusting firm but before the adjusting firm completes the inspection.

³ **Closed Without Payment (CWOP)** — Must include an adjuster site visit, meeting with the policyholder or their representative, photographs, and completed forms.

- **Less Than Deductible** — Claim should be billed based on the gross loss per the schedule subject to any policy limitations (such as Coverage B – Personal Property Special Limits and Coverage C – Other Coverages Loss Avoidance Measures) and exclusions.
- **No Coverage** — When it is determined that no claim payment is due, e.g., the damage was not caused by flood or the damaged property is not covered by the policy, then the file must be closed as a CWOP. The adjuster's report should contain sufficient explanation and documentation of the facts regarding the reason no payment is due.
- **Telephone Contact Only** — Will be billed at the Erroneous Assignment or Claim Withdrawn rate.

Supplements — Supplements shall be billed on the basis of the scheduled fee for the final adjustment, less any fees paid previously. Supplemental billings will not be considered for inadequate or incorrect scope of repairs or avoidable estimating errors. Concealed or progressive flood related damage is considered appropriate for supplemental billings.

For losses that require reopening and reassignment of the same or a different adjuster, the additional fee for the supplemental claim will be the larger of:

- (a) the CWOP fee; or,
- (b) the difference between the fee determined by the entry value when the claim was initially closed and the entry value for the entire claim after the supplemental claim is concluded.

Appendix 2 – Acronym List

Acronym	Definition
DHS	Department of Homeland Security
DSA	Direct Servicing Agent
FEMA	Federal Emergency Management Agency
NFIP	National Flood Insurance Program
SFIP	Standard Flood Insurance Policy
WYO	Write Your Own