United States Department of Agriculture

Risk Management Agency

1400 Independence Avenue, SW
Stop 0801
Washington, DC 20250-0801

March 2, 2006

INFORMATIONAL MEMORANDUM

TO: All Reinsured Companies
All Risk Management Agency Field
All Other Interested Parties

FROM: Craig A. Witt, Director */s/ Craig A. Witt*
Reinsurance Services Division

SUBJECT: 2007 Plan of Operations Deadline and Guidance

The Standard Reinsurance Agreement (SRA) Section IV.F.2.a. requires the Company to submit the Plan of Operations (Plan) to FCIC by April 1 preceding the reinsurance year. Since April 1, 2006 falls on Saturday the Plan will be due no later than close of business Monday, April 3, 2006. Please submit two complete copies of the Plan via overnight mail to the following address:

Risk Management Agency
Reinsurance Services Division
Craig A. Witt, Director
1400 Independence Avenue SW, Room 6747
Washington, DC 20250

The Risk Management Agency (RMA) will be conducting especially rigorous analysis on several exhibits of the Plan with this year's submission. RMA requests that the Companies review with particular care the following exhibits for full compliance with the SRA Appendix II:

Exhibit 10r. – Material Risk Assessment

Identify material threats or risks to the Company's ability to meet its financial and operational obligations under this Agreement, including the possible financial or operational ramification, and the Company plan and resources to mitigate or minimize risks.

A. Provide a copy of the Company's latest maximum probable loss risk assessment, whether conducted by the Company, a reinsurer, a reinsurance broker, or other party on behalf of the Company. The assessment must detail the magnitude and frequency of loss occurrence and include a description of the methodology used,

B. For each of the risks listed below: (a) state the probability of the risk occurring; (b) describe the Company's rationale for this assessment; and (c) identify controls, mitigating actions, or plans the Company has established to manage the adverse effects of that risk.

1. MPCI operating expenses will exceed the Administrative and Operating expense (A&O) subsidy provided by FCIC.

2. MPCI underwriting gains are insufficient to offset an expense deficit, defined as actual MPCI operating expenses exceeding A&O subsidy.

3. Policyholder surplus decreases more than ten percent in any calendar year.

4. Various threats cause a significant interruption in computer operations and data transfer (e.g. viruses, loss of hardware or communications over an extended period, etc).

5. A rating agency determines the Company's ability to meet its current obligations is marginal and that its financial condition is vulnerable.

6. Lines of credit or other financial arrangements are inadequate to facilitate cash flow needs.

7. Commercial reinsurance availability is decreased or the cost increased (e.g. reduced ceding commissions, increased premium rates, increased Company retention).

8. Other potential threats to the Company's finances or operations that are not included above or in Exhibit 20.

RMA requires assurance that the Company management team and Board of Directors are fully aware of the risks that could negatively impact the Company's ability to meet the terms of the Agreement and, through proper management controls, the Company is actively engaged in mitigating or minimizing those risks.

Exhibit 20. – Contingency Plan

Describe how the Company will service the policies reinsured under the Agreement in the event: the managing general agent or service provider listed in Exhibit 8 is no longer able to meet the requirements of their agreement with the Company; the Company is no longer able to meet the requirements of section II.A.8. and 9. of the Agreement, or is not eligible to participate in the Federal crop insurance program.

The Company's ability to meet the terms of the Agreement is dependent upon obtaining the financial and operational resources needed to deliver and service the Federal crop insurance program. Whether a Company is directly providing the resource or contracts with a service provider, it must be prepared to manage a delivery system failure by having assured access to alternative resources.

For each of the four resources listed below: (a) identify the entity or entities responsible for providing the resource required to meet the terms of the Agreement; (b) alternative means of obtaining the resource in the event the entity or entities listed in a) experience failure; and (c) the estimated time and other resources needed to fully transition the responsibility from the entity or entities listed in a) to the alternative entities listed in b). Each service provider listed in Exhibit 8 should be identified and discussed with one or more resources, as appropriate.

The specific resources the Company must consider in its response are:

1. Financial. The plan must ensure that sufficient financial resources will be available to continue proper operations, should occurrences adversely affect the Company's financial condition. In some cases, RMA will require that a Contingency Plan include guarantees or sufficient assurances from parent companies, or other entities, that financial resources will be available to meet the terms of the Agreement.

2. Computer and Information Systems. The plan must describe backup computer and information systems, how these systems will be deployed, and an estimate as to how long it would take to resume normal operations.

3. Crop Insurance Expertise. The plan must ensure that the Company will have sufficient expertise in crop insurance sales, underwriting, loss adjustment, data processing, and other facets of crop insurance sales and service to assure continued operations. Include a description of current and back-up physical security of systems, as well as security of information contained therein.

4. Failure of the Company's financial or operational resources. If the Company's contingency plan is to move operations to another insurance provider, indicate specifically the steps the Company will take to assure a seamless transition of agent/loss adjuster services (e.g., training the agent/loss adjuster on the systems/processes of a new processing environment or software, estimated length of time needed for the transition, mitigating controls in place to assure timeliness of payments or other services.)

RMA requires assurance that the Company management team and Board of Directors have considered all resources needed to meet the terms of the Agreement, and have authorized the provisions of the Contingency Plan.

Exhibit 22 – Quality Control Plan

RMA requires a complete description of the Company's quality control processes in place and operational to meet the requirements outlined in Appendix IV. Please ensure that your quality control plan contains the following information:

1. The type of reviews to be conducted and the selection criteria;
2. responsible party for completing the review and review deadline;
3. review criteria;
4. for each Appendix IV requirement, a description of the quality control review processes utilized by the Company to meet each requirement, detailing who, what, where, when and how the process meets the requirement, written procedures utilized, documents that are used in and/or that result from the application of these processes;
5. documentation requirements to include forms completion;
6. documentation and responsibility for computer input of review results for generating the annual summary report
7. and any additional requirements above and beyond the minimum requirements outlined in Appendix IV. the Company may impose in their quality control plan.

If your Company already has a corporate quality control, internal control plan or procedural manual that would demonstrate the company's ability to meet the requirements of the SRA, please provide a copy of this document. Identify within each document the requirement being addressed.

Exhibit 27 – Identification of Cooperative or Trade Associations

RMA requires the Company to ensure compliance with the SRA, Section II.A.4., which prohibits a company and its affiliates from providing a rebate except as authorized by the Federal Crop Insurance Act (Act). The Company must completely review their business operations and transactions and those of any affiliates to ensure the appropriate disclosures are made as required in Exhibit 27 to qualify to provide a payment to producers through a cooperative or trade association as authorized by section 508(b)(5)(B), of the Act.

RMA looks forward to receiving your Company's 2007 reinsurance year Plan submission. If you have any questions regarding this memorandum please feel free to contact your Account Executive.