RISK MANAGEMENT AGENCY
TRANSFER OF CAT POLICIES
TO REINSURED COMPANIES
WASHINGTON, D.C.
AUDIT REPORT NO. 05099-1-KC

MARCH 1998

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
GREAT PLAINS REGION
P. O. BOX 293
KANSAS CITY, MISSOURI 64141

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: March 3, 1998

REPLY TO
ATTN OF: 05099-1-KC

SUBJECT: Transfer of CAT Policies to Reinsured Companies

TO: Kenneth D. Ackerman
Administrator
Risk Management Agency

ATTN: Garland Westmoreland
Deputy Administrator
for Compliance

This report presents the results of our audit of the Transfer of Cat Policies to Reinsured Companies. Your February 13, 1998, written comments on the draft report are included as exhibit B with excerpts and the Office of Inspector General's position incorporated into relevant sections of the report. The response did not provide sufficient information for management decisions on any of the audit recommendations. The Findings and Recommendations section of the report describes the information needed for management decisions on these recommendations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation for the recommendations. Please note that this regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

TRANSFER OF CAT POLICIES TO REINSURED COMPANIES AUDIT NO. 05099-1-KC

PURPOSE

The audit was performed to assess the effectiveness and propriety of the process and procedures used to transfer the Catastrophic Risk Protection (CAT) policies previously serviced by Farm Service Agency (FSA) county offices to private reinsured companies. We initiated this review to evaluate the transfer of the CAT Program from a dual delivery to a single delivery system.

RESULTS IN BRIEF

Our review of the first transfer of CAT policies showed that the Risk Management Agency (RMA), FSA, and private reinsured companies did not effectively coordinate their activities. Specifically, we found that producers did not always receive adequate local agent servicing, the needs of limited resource producers were not addressed, and RMA's evaluation process did not fully assess the effectiveness of CAT program servicing. These conditions occurred because RMA did not have an effective plan to ensure that producers were adequately serviced. Without improvements in the transfer process and the servicing of producers, participation in the CAT program will likely suffer and its effectiveness as a safety net will diminish.

Since the initial transfer of CAT policies, RMA has made improvements to the final phase of the CAT transfer process. These include the establishment of Single Delivery Transition Committees, in each State, to facilitate the transition from dual delivery to single delivery. Also, RMA has issued instructions to reinsured companies to improve the availability of CAT policies to limited resource producers.

KEY RECOMMENDATIONS

We recommend that RMA monitor the servicing of CAT policies to determine whether reinsured companies and agents are providing adequate servicing to producers, especially limited resource and other socially disadvantaged producers. Also, RMA should encourage the Single Delivery Transition Committees to take a pro-active role in the transfer process to ensure that it proceeds in a smooth manner. In addition, we recommend that RMA implement a study to evaluate the overall effectiveness of CAT policy servicing including that provided to limited resource and socially disadvantaged producers.

AGENCY POSITION

In its written comments on the draft report (see exhibit B) RMA generally agreed with the audit findings and recommendations, but did not provide sufficient information for management decision on the recommendations.

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INTRODUCTION

BACKGROUND

The Federal Crop Insurance Act, as amended by the Federal Crop Insurance Reform Act of 1994 (the Act), required the Federal Crop Insurance Corporation (FCIC) to implement a Catastrophic Risk Protection (CAT) plan for producers. The Act also created an independent office called the Risk Management Agency (RMA) with responsibility for the supervision of FCIC, and the administration and oversight of programs authorized under the Act. The CAT plan provides the lowest level of coverage available to producers under the Act.

For crop years 1995 through 1998, CAT provides coverage for a 50 percent loss in yield at 60 percent of the expected market price. For 1999 and subsequent years, producers will be offered coverage for a 50 percent loss in yield at 55 percent of the expected market price. Producers are charged $50 per crop in administrative fees for this protection. Producers with multiple crops pay no more than $200 per county and those farming in multiple counties never pay more than $600 for all crops. CAT coverage is offered through approved reinsured companies and/or agents and local Farm Service Agency (FSA) offices. These offices are also authorized to waive the administrative fees for eligible limited resource producers.

The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) authorized the Secretary to transfer CAT coverage from the FSA offices to private insurance companies, in a State or portion of a State, where there are sufficient numbers of these companies available to service the producers. For the 1997 crop year, the Secretary, in consultation with reinsured companies, approved 14 States for transfer to private insurance companies including: Arizona, Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Montana, Nebraska, North Carolina, North Dakota, South Dakota, Washington, and Wyoming. The RMA assigned 108,820 CAT policies to 15 reinsured companies in the 14 States.

In May 1997, the Secretary approved the transfer of CAT insurance in the remaining 36 States to private crop insurance agents, beginning with the 1998 crop year. The decision was made after reviewing the number of crop insurance agents in each State to ensure an adequate sales force was in place to provide all farmers with CAT coverage. Similar to the previous transfer, policies will be randomly transferred to an insurance company, and producers may select another agent or company if they do so before the sales closing date.

OBJECTIVES

The primary objective of our review was to assess the effectiveness and propriety of the process and procedures used to transfer CAT policies previously serviced by the FSA county offices (CO) to private reinsured companies.

SCOPE

The review was performed at the RMA National Office, RMA Research and Development Division and Compliance Division Offices in Kansas City, Missouri; Regional Service Office in Topeka, Kansas; the Iowa FSA State Office, in Des Moines, Iowa; the Cowley and Sumner FSA CO's in Kansas; and Granville and Warren FSA CO's in North Carolina. Also, we visited three private reinsured companies in Kansas City, Missouri, and Council Bluffs and Des Moines, Iowa. In addition, we contacted the FSA State offices for the remaining 13 transition States and 24 judgmentally selected CO's in 10 States to obtain their comments and concerns regarding the 1997 crop year CAT transfer process (see exhibit A). The CO's were selected based on information obtained from the applicable State offices. The audit fieldwork was performed between October 1996 and March 1997.

The audit was conducted in accordance with <u>Government Auditing Standards</u>.

METHODOLOGY

We initially reviewed the CAT transfer process by interviewing RMA national and regional office personnel, Iowa FSA State office personnel, and officials from three private reinsured companies. Based on producer servicing issues noted during these interviews, we performed additional fieldwork to determine whether there were sufficient numbers of private insurance agents available and/or willing to service the transferred CAT policies.

We contacted the FSA State offices for the remaining 13 transition States to obtain information on the level of servicing producers were receiving from private companies and agents. Also, we contacted 24 judgmentally selected FSA CO's in 10 transition States, based on comments or concerns provided by the applicable State office, to obtain specific information applicable to producer servicing at the local level.

Based on the large number of policies reassigned in Kansas and producer servicing concerns communicated by State and county officials in North Carolina, we selected four CO's in the two States for additional fieldwork.

At the four FSA CO's, we interviewed CO personnel and 25 producers to identify any concerns they had regarding the transfer process. In addition, we contacted 15 private reinsured agents to obtain a description of the policy assignment process and any comments or concerns they had regarding the transfer process.

We also issued two management alerts to keep RMA managers informed of program issues that, we believed, needed their immediate attention.

FINDINGS AND RECOMMENDATIONS

I. CAT POLICY TRANSFER PROCESS NEEDED IMPROVEMENTS

The audit disclosed that the RMA, FSA, and private reinsured companies did not effectively coordinate the transfer of CAT policies. We found that producers were not receiving adequate local agent servicing, limited resource producers were not being serviced, and RMA's evaluation process was not extensive enough to adequately assess the quality of CAT program servicing. Without improvements in the CAT transfer and servicing processes, producer participation will likely decline and the effectiveness of the program as a safety net for producers, especially for small and/or socially disadvantaged farmers, will diminish.

POLICY ASSIGNMENTS DID NOT ENSURE LOCAL SERVICING

FINDING NO. 1

The process used to reassign policies to private companies did not ensure that a producer would receive adequate servicing. CAT policies were assigned to agents outside the local area or to agents unwilling to service them. Some policies were not assigned to agents. Also, we found that the financial compensation provided private agents was not sufficient to ensure their servicing of CAT policies. These conditions occurred because RMA and the reinsured companies did not adequately assess the availability and willingness of local agents to service CAT policies. Also, RMA assigned the policies to the reinsured companies which then reassigned them to agents. The reinsured companies basically relied on the agents to contact the producers.

Our review found the following cases where producers were not adequately serviced:

- Reinsured companies assigned CAT policies to agents outside the local area. For example, producers in Park County, Wyoming, were assigned to agents in Cheyenne, Wyoming, over 450 miles away. Also, a producer in Granville County, North Carolina, received notification that he was assigned to an insurance agency in Virginia. Similar situations were noted in various counties in four other States (Arizona, Colorado, Montana, and Washington).

- Policies were assigned to agents who were not interested in servicing the policies. Agents for one company in North Carolina advised FSA CO's they would not service the CAT policies. Another agency requested producers to transfer their CAT coverage to another company if they did not desire other insurance business with the company. An agent in

Granville County, North Carolina, who had been assigned five CAT policies by two reinsured companies had not taken any action to contact the producers about CAT coverage.

- Reinsured companies did not always assign policies to agents directly for servicing. For example, most of the CAT policies assigned to one reinsured company in North Carolina were serviced by its field office. Local agents for this company expressed an interest in servicing CAT policies, but had not been assigned any policies.

In our first management alert, dated January 7, 1997, we reported the deficiencies in local agent servicing of CAT policies to RMA and recommended that RMA change the criteria for future CAT transfers. This primarily included determining if there are sufficient agents in a local area who are willing and able to service CAT policies. Also, when there are sufficient agents at the local level, the area should be converted to a single delivery system and the policies randomly assigned to reinsured companies with agents in that area. RMA did not concur with this recommendation. RMA responded that reinsured companies administer the crop insurance program on a state-by-state, not on a "local" basis. Operating other than on a state-by-state basis implies increased costs for companies and eventually greater demand on Government for such costs to be reimbursed. Also, RMA had concerns with how "local area" should be applied.

The Secretary has approved two Decision Memorandums for the transfer of CAT policies to private reinsured companies. Both contained various numbers of agents available to service CAT policies, but did not show how many of the agents were willing to service the CAT policies. The agent counts included those selling both CAT and multi-peril crop insurance (MPCI) policies. Most agents selling MPCI policies operate independently from the reinsured companies and are under no obligation to sell CAT policies. Neither RMA nor the reinsured companies can require the agents to service the CAT policies assigned to them. Also, significant differences exist between agent compensation under the MPCI and CAT programs. Under MPCI, the agent receives a percentage of the premium which amounts to substantially more than the CAT fees. On the other hand, agents usually receive a percentage of the CAT fee plus a portion of the imputed premium for the CAT policies.

During our interviews of insurance representatives, we found that the compensation for agents was not adequate to entice agent interest in the servicing of CAT policies. We also interviewed agents who said that the compensation was not sufficient for the time required to service the CAT policies. For example, one agent explained that he received about $20 per policy, but the policy costs him more than that to service. Another agent commented that the servicing of CAT policies is not cost effective for an independent agent because of the resources required.

However, reinsured companies are receiving significant amounts for servicing CAT policies through the sharing of underwriting gains with FCIC. These underwriting gains totaled about $46 million, or about $126 per CAT policy for 1995. For 1996, these gains increased to almost $68 million, or about $228 per crop policy. Agents received little from this pool of funds.

In preparation for the transfer of policies for the remaining 36 States, RMA improved the overall transfer process. RMA established Single Delivery Transition (SDT) Committees, in each State, to

1) facilitate a smooth transition from dual delivery to single delivery; 2) track RMA crop insurance help line issues by cooperating and assisting in problem identification and resolution; 3) lend assistance to private companies in identifying and servicing individual and groups of limited resource, minority, and other socially disadvantaged farmers; and 4) facilitate problem resolution to assure that crop insurance is available to all interested producers. The SDT committees include representatives from the State or regional National Crop Insurance Services Loss Committee and the Regional Service Office. FSA State offices were invited to provide assistance to the SDT committees.[1] In addition, reinsured companies and agents are required to service all eligible producers. Companies must accept and service all CAT policies transferred or assigned to them, as well as crop insurance applicants at all levels and for all crops.[2]

Although RMA has required reinsured companies to accept and service CAT policies assigned to them, the independent agents are still under no contractual obligation to service these policies. Also, agents do not have a financial incentive to service CAT policies, at least, not to the extent realized by the reinsured companies. The CAT program is now the only safety net available for small and socially disadvantaged farmers. RMA needs to monitor the reinsured companies’ and agents’ efforts to determine whether they are adequately servicing these producers.

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1 RMA Bulletin No. MGR-97-026 dated July 7, 1997

2 RMA Bulletin No. MGR-97-024 dated June 13, 1997

RECOMMENDATION NO. 1a

Monitor the servicing of the transferred CAT policies to determine whether reinsured companies and agents are providing adequate servicing to producers. Also, encourage the SDT committees to take a proactive role in the oversight of the transfer process to facilitate a smooth transition.

RMA Response

In written comments on the draft report (see exhibit B), RMA concurred with this recommendation but proposed actions that do not timely address the issue. RMA plans, as part of RMA's Strategic Plan, to send out a customer service survey to evaluate producers' satisfaction with its products and services. The evaluation is planned to be completed by January 1999. Also, RMA indicated the Single Delivery Transition committees will be active until the end of August 1998.

OIG Position

RMA's planned actions do not address the recommendation. RMA's needs to take a proactive role in evaluating the servicing of CAT policies and obtain immediate feedback from the affected producers. RMA's customer survey will be not be completed until January 1999, well after the sales closing dates for the policies. This does not provide adequate time to determine whether the producers were afforded an opportunity to participate in the CAT program during the 1998 crop year. This assessment is particularly critical in States with few or no agents.

In order to reach management decision, we need to be informed of when and how RMA plans to followup with the reinsured companies and their agents to evaluate the quality of services provided to the CAT policyholders.

RECOMMENDATION NO. 1b

Follow up with the reinsured companies and their agents to evaluate their willingness and ability to provide servicing to CAT policyholders and determine if any improvements (i.e., workload, compensation, etc.) are needed to encourage the servicing of CAT policies in the future.

RMA Response

In written comments on the draft report (see exhibit B), RMA concurred with the recommendation. The Risk Compliance Division is responsible for conducting reviews of complaints of improper servicing of policies. RMA also plans to conduct a customer service survey which will include CAT policies to be completed by January 1999.

OIG Position

RMA's planned actions do not address the recommendation. RMA does not show what, if any, action was taken or planned to follow up with the reinsured companies and their agents to evaluate their willingness and/or ability to provide servicing to CAT policyholders. Also, the completion of the customer service survey is too late and not relevant to the recommendation.

In order to reach management decision, we need to informed that RMA will followup with reinsured companies and agents and evaluate their willingness and ability to service CAT policies. Such information should include the timeframe for performing the followup action.

LIMITED RESOURCE PRODUCERS WERE NOT BEING SERVICED

FINDING NO. 2

Our reviews in two North Carolina counties showed that reinsured companies and their agents were not properly servicing limited resource producers. These producers were not notified by the reinsured companies or agents of the possibility for receiving an administrative fee waiver. As a result, the producers usually canceled out of the CAT program rather than pay the $50 fee. We believe this problem will be prevalent in other States also because no special servicing was given to limited resource producers.

We found that 11 limited resource producers in Warren County who received administrative fee waivers from the FSA during the 1996 crop year had not renewed their 1997 CAT coverage with private insurance companies. Two of the 11 producers interviewed had not been contacted by a reinsured company or agent. One of the producers explained that she canceled her coverage at the FSA CO because she thought she would have to pay the administrative fee if she continued her policy with a private agent. Two other producers had canceled their policies after receiving a letter offering CAT coverage from a reinsured company; however, the letter did not inform the producers of the availability of a fee waiver. We question whether the producers would have canceled their CAT policies if they had been informed that the fee waivers were available to them through the reinsured companies.

In addition, two producers who had purchased CAT coverage for the 1997 crop year were not informed that they may be eligible for the fee waiver. During interviews with four local agents in Warren County, we learned that none of the agents had received or processed a fee waiver application. We question whether the agents were fully aware of the waiver provisions. One insurance agent who wrote the 1997 CAT policies for two limited resource producers, was not aware of the waiver form. Also, one official from one reinsured company's State office explained that she was not aware of any of the assigned producers being eligible for the fee waiver. The company's prepared list of assigned policies did not indicate whether any policies were for limited resource producers.

In our second management alert, dated April 16, 1997, we reported that limited resource producers were not being serviced under the administrative fee waiver provisions. We recommended that reinsured companies provide special servicing for limited resource producers. In addition, we recommended that RMA identify limited resource producers and follow up with the reinsured companies to ensure that these producers were given an opportunity to participate in 1997 under these provisions. RMA concurred with our recommendations.

RMA has issued instructions to improve the availability of CAT for limited resource producers. Insurance providers were required to advise all agents of the limited resource procedures and the availability of the form to certify the producer's status. The providers were also required to identify limited resource producers who do not have a policy and have an agent contact the producers. The companies are responsible for assuring that agents are familiar with procedures for waiving the administrative fee and assuring that limited resource certification forms are available to agents.[3]

The administrative fee waiver provision enables small and disadvantaged producers to obtain a safety net over their farming operations at no cost. In 1996, only 3 percent of the approximately 26,000 administrative fee waivers for limited resource producers were processed through reinsured companies; FSA CO's accounted for the rest of the waivers (97 percent or about 25,000 waivers). In addition, we noted that 84 percent (about 21,000 waivers) of the waivers, processed by FSA CO's, were completed by CO's in the remaining 36 States. However, only 29 percent (4,350 agents) of all active agents are available to service these policies in the 36 States. We believe that the extension of the transfer process to States with fewer agents will only increase the servicing problems for limited resource producers.

In our opinion, RMA's actions will help improve the availability of CAT insurance to limited resource and socially disadvantaged producers. However, we believe that RMA still needs to ensure that the reinsured companies encourage limited resource and socially disadvantaged producers to continue their participation in the CAT program. Otherwise, the CAT program will not serve as a safety net for these producers in the future.

RECOMMENDATION NO. 2

Follow up to ensure that reinsured companies and agents are providing adequate servicing to limited resource and socially disadvantaged producers.

RMA Response

In its written comments on the draft report (see exhibit B), RMA concurred with the recommendation. RMA issued a bulletin notifying reinsured companies and agents of measures to assure that limited resource producers are included in the USDA safety net provided by crop insurance. Also, RMA, reinsured companies, and the Office of

[3] RMA Bulletin Nos. MGR-97-020 and MGR-97-024 dated May 15, 1997, and June 13, 1997.

Outreach are currently developing an outreach plan to be completed by June 1998. In addition, the customer survey planned for this year will evaluate the servicing of limited resource producers.

OIG Position

The agency actions do not address the recommendation. The RMA bulletin only advised the reinsured companies and agents of the special servicing needs of limited resource producers. There is no planned followup action, prior to the closure of crop insurance sales, with transferred policyholders to ensure that the companies and/or agents are servicing limited resource producers. Also, the planned outreach program and customer service surveys will not be completed in time to determine if limited resource producers are participating in the CAT program for the 1998 crop year.

For a management decision, we need to be informed of RMA's followup action to ensure that limited resource producers are being adequately serviced during the 1998 crop year. This decision should include the timeframe for performing this action.

EVALUATION PROCESS WAS NOT SUFFICIENT TO BE EFFECTIVE

FINDING NO. 3

The overall RMA evaluation process was not extensive enough to assess the effectiveness of the CAT program servicing. RMA did not have procedures in place to evaluate the transfer of policies. Also, RMA had not performed any survey of transferred producers to assess their satisfaction with the CAT transfer process. As a result, RMA did not have sufficient information to conclude that the transfer to single delivery in the 14 States went relatively well.

In our first management alert, we recommended that RMA evaluate the effectiveness of the CAT policy transfer process by evaluating the retention rate of transferred policies. Also, we recommended that RMA distribute a questionnaire to transferred CAT policyholders to assess their satisfaction with the transfer process. In addition, we recommended that RMA follow up in the 14 States to identify areas where producers were not being adequately serviced by reinsured companies or agents.

RMA responded that they planned to do a side-by-side comparison of the persistence of: CAT policies at FSA's local offices in dual-delivery States; CAT policies at the reinsured companies in both dual and single-delivery States; CAT policies at local offices in single-delivery States, where the transfers took place, and buy-up policies in all States. RMA believed that a questionnaire of this size was a costly and time consuming process for which money had not been budgeted for in fiscal year 1997. RMA would, however, pursue cost effective approaches to determine the adequacy of customer service through a limited sample of policyholders. Also, RMA responded that they did not have any evidence that "areas" were not provided service by the reinsured companies and they were provided assurances throughout the transfer process that if producers were identified who said they were not being serviced, the reinsured companies would provide service to the producers. RMA also stated that they had referred fewer than 10 complaints to companies from the national level where producers had indicated they had been denied or had received poor service during the transition. RMA provided that to their knowledge, no producer who desired insurance in 1997 was denied solely on the basis that the transition process did not work.

However, RMA has minimized the potential impact of inadequate servicing by only considering the number of complaints that they received. Also, RMA has not fully considered the conditions we noted during our review. Our review showed that the majority of complaints went through FSA offices who are at the local level and in close contact with the producers. Therefore, the low number of complaints received by RMA at the national level is not an indicator of adequate servicing by reinsured companies or their agents.

We continue to believe that RMA needs to perform a survey to assess producer satisfaction/dissatisfaction with the CAT policy servicing. At a minimum, the questionnaire should be distributed to a statistically selected group of policyholders involved in the CAT policy transfer, who have either continued or cancelled their CAT coverage.

RECOMMENDATION NO. 3

Implement a study to evaluate the adequacy of CAT policy servicing. Send a questionnaire to transferred CAT policyholders, who either have continued or cancelled their coverage, to assess their satisfaction/dissatisfaction with the quality of servicing.

RMA Response

In its written comments on the draft report (see exhibit B), RMA concurred with the recommendation. RMA plans to send out a customer servicing survey, to be completed by January 1999, to assist in evaluating customer servicing. RMA will include CAT policyholders in the overall survey which RMA believes will be more cost effective, rather than to conduct a special survey limited to just CAT policyholders.

OIG Position

The agency actions do not address the recommendation. RMA believes that the customer service survey will address CAT policy servicing issues because the survey will include CAT policyholders. However, former CAT policyholders who have cancelled their coverage do not appear to be part of the survey. Also, the comments do not discuss the number or percentage of CAT policyholders that will be included in the survey.

In order to reach management decision, we need to be informed of the actions taken or planned to evaluate the adequacy of servicing provided to transferred policyholders including those who have cancelled their coverage effective for 1998. Such decision should include a timeframe for completing the action.

EXHIBIT A - TELEPHONE CONTACTS

STATE	COUNTY
Arizona	Maricopa
Arizona	Yuma
Colorado	Moffat
Colorado	Montrose
Illinois	Cass
Illinois	Clay
Indiana	Kosciusko
Indiana	Posey
Iowa	Clayton
Iowa	Winneshiek
Minnesota	Benton
Minnesota	Pope
Minnesota	Wright
Montana	Garfield
Montana	Powder River
Nebraska	Chase
Nebraska	Kimball
South Dakota	Edmunds
South Dakota	Faulk
South Dakota	Hand
Washington	Klickitat
Washington	Skagit
Washington	Whatcom
Washington	Whitman

EXHIBIT B - RMA RESPONSE TO THE DRAFT REPORT

USDA United States Department of Agriculture

Risk Management Agency

Stop Code 0801
1400 Independence Ave., SW
Washington, DC 20250

FEB 1 ? 1998

TO: James R. Ebbitt
Assistant Inspector General for Audit

ATTN: Edwin D. Linderman
Regional Inspector General for Audit

FROM: Kenneth D. Ackerman
Administrator
Risk Management Agency

SUBJECT: OIG Audit Report 05099-1-KC - Transfer of the Catastrophic Risk Protection (CAT) Policies to Reinsured Companies

This is in response to your November 24, 1997, memorandum requesting our written response to the recommendations contained in the subject official draft report. We have also included some general comments on the report.

RECOMMENDATION NO. 1

Monitor the servicing of the transferred CAT policies to determine whether reinsured companies and agents are providing adequate servicing to producers. Also, encourage the Single Delivery Transition (SDT) committees to take a proactive role in the oversight of the transfer process to facilitate a smooth transition.

Risk Management Agency (RMA) Response

RMA concurs with the recommendation. As a part of The RMA Strategic Plan, we plan to evaluate producers' satisfaction with products and services. Our evaluation process includes an annual customer survey to obtain information regarding program effectiveness. We will include in the survey currently under design, questions designed to determine whether transferred CAT policies have been adequately serviced by reinsured companies. Our Compliance Field Offices and Regional Service Offices will be reminded to be alert to any complaints from producers regarding poor or inadequate servicing of crop insurance policies, including transferred CAT policies. We plan to have the evaluation completed by January 1999.

In July 1997, RMA issued directive, MGR-97-026, Guidelines for Establishing Single Delivery Committees in order to help facilitate the orderly transfer of CAT policies from the Farm Service Agency to private insurance companies. The Single Delivery Transition committees were established to 1) facilitate a smooth transition form dual to single delivery; 2) track RMA Crop

Insurance Help Line issues by jointly cooperating and assisting in problem identification and resolution; 3) lend assistance to private companies in identifying and servicing limited resource, minority and socially disadvantaged farmers; and 4) facilitate problem resolution to assure that crop insurance is available to all interested parties. The committees will be active until the end of August 1998.

We have taken action to ensure that transferred CAT policies are adequately serviced and we request management decision on this recommendation.

RECOMMENDATION NO. 1b

Follow-up with the reinsured companies and their agents to evaluate their willingness and ability to provide servicing to CAT policyholders and determine if any improvements (i.e. workload, compensation, etc.) are needed to encourage the servicing of CAT policies in the future.

RMA Response

RMA concurs with the need to ensure that all policyholders, including CAT are adequately serviced. The Risk Compliance Division is responsible for conducting reviews of complaints of improper servicing of crop insurance policies including CAT. We plan to conduct a customer service survey as a part of the RMA strategic plan. This will include servicing of CAT policies. The survey will be completed in January 1999. We believe these actions are sufficient and we request management decision on this recommendation.

RECOMMENDATION NO. 2

Follow-up to ensure that reinsured companies and agents are providing adequate servicing to limited resource and socially disadvantaged producers.

RMA Response

RMA concurs with the recommendation. RMA has taken several steps to retain and increase the number of limited resource and socially disadvantaged producers who purchase crop insurance. RMA issued a bulletin to specifically notify reinsured companies and their agents of appropriate measures to assure that limited resource, minority and socially disadvantaged producers are included in the USDA safety net provided by federally subsidized crop insurance. RMA has also met with the crop insurance industry regarding the development of an Outreach plan. A comprehensive outreach plan involving RMA, reinsured companies and the USDA Office of Outreach is currently being developed. The plan will be completed by June 1998. Additionally, the customer survey planned for this year will evaluate the servicing of limited resource, minority and socially disadvantaged producers. We believe that these actions are adequate and we request management decision.

RECOMMENDATION NO. 3

Implement a study to evaluate the adequacy of CAT policy servicing. Send a questionnaire to transferred CAT Policyholders, who either have continued or canceled their coverage, to assess their satisfaction/dissatisfaction with the quality of servicing.

RMA Response

RMA concurs with the recommendation. The RMA strategic plan includes an evaluation of customer service. The survey will specifically address policy servicing and will include CAT policyholders. The survey will be completed by January 1999. We believe it would be more cost effective to include CAT policyholders in our overall survey, rather than conduct a special survey limited just to CAT policyholders. We believe that this action is adequate and we request management decision.

GENERAL COMMENTS ON THE REPORT

As noted in the report, RMA made improvements in the final phase of the CAT transfer process. The Single Delivery Transition Committees were established to facilitate the transition from dual delivery to single delivery. These committees are still available to resolve transition problems. This past year, our primary focus was on the orderly transfer of policies. Since the transfer has been completed, we will now shift our focus to policy servicing. We plan to perform a major evaluation of policyholder servicing this year. This will help us identify servicing problems that need to be addressed.

We appreciate having an opportunity to respond to the report.