

# Procedure For The Submission and Review of New and Revised Crop Insurance Policies

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## 1. Definitions

**Act** - The Federal Crop Insurance Act (7 U.S.C. 1501 et seq).

**Actuary** - A person having technical competence relating to the current financial implications of future contingent events, especially as this affects the establishment of premium rates for insurance, as evidenced by: 1) membership, as either a fellow or associate, in the Casualty Actuarial Society; 2) at least 10 years of professional level work experience as an actuary setting rates for crop insurance or related lines such as hail, livestock, or farm insurance; or 3) at least 15 years of professional level rate setting experience in, or equivalent to, the GS-1510 (Actuary) job series.

**Administrator** - The Administrator of RMA.

**AIP (Approved Insurance Provider)** - Insurance companies approved for reinsurance by the Corporation.

**Board** - The Board of Directors of FCIC.

**Corporation** - The Federal Crop Insurance Corporation.

**CPP (Corporation Proposed Policy)** - A policy submitted under any section of the Act except section 508(h).

**CLIN (Contract Line Item Number)** – Designates a specific loaded hourly rate when the expert reviewer's negotiated contract includes multiple loaded hourly rates.

**Days** - Calendar days.

**Disapproval Date** - The date by which the Board will provide notice of intent to disapprove a PSP.

**Expert Reviewers** – Actuaries and underwriters contracted by the Board who evaluate PSP and CPP policies in accordance with the Act and advise the Board of their findings.

**FCIC** – The Federal Crop Insurance Corporation, a wholly owned government corporation within the United States Department of Agriculture (USDA).

**General Pool** - Persons with expertise as actuaries or in underwriting of insurance policies, who do not meet the criteria for inclusion in the provider pool, and who are approved by the Board to serve as reviewers of policies.

**Loaded Hourly Rate** – The hourly labor rate negotiated and approved by the Contracting Officer for work awarded to Expert Reviewers. This labor rate includes wages, benefits, general and administrative fees, profit, and any other labor cost that the Contracting Officer agrees will be paid to the Expert Reviewer.

**Notice of Intent to Disapprove** - Written notice from the Board to the submitter of a PSP that the Board intends to disapprove the submission.

**Original Submission** - A PSP submitted for the first time to the Corporation and that contains all the materials required by the submission regulations published at 7 C.F.R. part 400, subpart V.

**Person** – An individual; a partnership, corporation, or other business entity; or a government entity.

**Policy** - Any crop insurance policy or plan of insurance, provision of a policy or plan of insurance, and related materials, whether new or revised.

**Provider Pool** - Persons with expertise as actuaries or in the underwriting of insurance policies that are nominated to serve by an AIP or are currently or regularly employed by or otherwise affiliated with an AIP, or any entity associated with or controlled by one or more AIPs; and who are approved by the Board to serve as reviewers of policies.

**PSP (Privately Submitted Policy)** - A policy submitted under section 508(h) of the Act.

**Revised Original Submission** - An original submission that is changed by the submitter with replacement, supplemental, or new material prior to the Board taking action to approve, disapprove, or agree to an extension of time.

**Revised Rejected Submission** - An original or revised original submission for which the Board provided notice of intent to disapprove and that is then changed by the submitter with replacement, supplemental, or new material and resubmitted to the Board.

**RMA** - The Risk Management Agency, an agency of the U. S. Department of Agriculture.

**Submission** - A PSP submitted to the Corporation that RMA determines to contain all the materials specified in the submission regulations or a CPP submitted to the Board for approval.

**Submission Date** – The date when an original submission or revised rejected submission is determined complete by RMA, in accordance with section 400.703.

**Submitter** - A person who submits a PSP to the Corporation.

**Underwriter** - A person having technical competence and experience with the design of insurance policies, the classification and acceptance or rejection of risks, or the class of asset or activity (e.g. - the production risks or economics of specific crops) proposed to be insured, and who applies such knowledge to assure the proper functioning of insurance programs, as evidenced by: 1) at least 10 years of professional level work experience as an crop insurance underwriter; 2) at least 15 years of professional level work experience as a property and casualty underwriter in fields related to crop insurance, such as hail, livestock, or farm insurance; 3) at least 15 years of experience as an agricultural risk management consultant; 4) a Ph.D. in agricultural economics with at least 5 years of post doctoral work in crop insurance or agricultural risk management; or 5) a Ph.D. with at least 5 years of post doctoral work in a field of agriculture, risk management, etc., directly related to the agricultural commodity or activity proposed to be insured.

## **2 Applicability and Precedence**

- (a) This procedure is applicable to all PSPs and all CPPs unless otherwise indicated.
- (b) If there is a conflict between these procedures and either the Act or the submission regulation, the Act and the submission regulation shall take precedence.

## **3 Submission**

- (a) PSP policies will be submitted in accordance with the submission regulation.
- (b) RMA will not accept for review and consideration by the Board any PSP submission that does not contain all materials required by the submission regulation of sufficient quality to permit a meaningful review, nor any that the Office of the General Counsel determines would be in violation of the Act if approved.
- (c) When a revised original submission is submitted, the original submission will be deemed to be withdrawn and only the revised original submission will be reviewed and considered.

#### **4 Expert Reviewers**

- (a) The Director of Contract Management and Special Projects, in consultation with AIPs and other sources, will nominate persons to serve as expert reviewers. Their names, qualifications, experience, availability, and potential conflicts of interest will be submitted to the Board, along with a statement of qualification from the Director of Contract Management and Special Projects.
- (b) The Board will approve or disapprove each candidate. When approved by the Board, these expert reviewers will be placed in the general or provider pool, as applicable.
- (c) The Director of Contract Management and Special Projects will acquire the services of the expert reviewers from the pools in a timely and efficient manner, and will award contracts to qualified reviewers from the appropriate pool for each original or revised submission, taking into account known conflicts of interest and other pertinent information.
- (d) Except as specified in section 3(b), original and revised submissions determined complete by RMA will be assigned by the Board to at least five expert reviewers selected from the pools, subject to the following limitations:
  - (1) Only one employee of the Federal Government may serve as an expert reviewer of any product.
  - (2) In the case of CPPs, at least one reviewer will be from the provider pool.
  - (3) In the case of PSPs, reviewers will only be chosen from the general pool.
- (e) Among the expert reviewers for each original or revised submission, there will be at least one actuary and one underwriter.
- (f) The Board will evaluate the quality and usefulness of the reports provided by expert reviewers and, based on these evaluations, may instruct the Director of Contract Management and Special Projects to remove names from either pool. The Board may also direct the removal of the names of persons who decline three consecutive requests to review products.

#### **5 Expert Reviews**

- (a) For each expert review, the Director of Contract Management and Special Projects will propose to the Board a list of at least 5 recommended expert reviewers, and 5 alternate expert reviewers in case any recommended reviewers are unable or unwilling to perform the review. After approval of the expert reviewers by the Board, the Director of Contract Management and Special Projects will make contract awards to the approved expert reviewers, and will give them each a copy of the entire submission and a copy of this procedure.

- (b) Expert reviewers may request additional materials, background information, analyses, and interpretations from the Director of Contract Management and Special Projects. The Director of Contract Management and Special Projects will contact the submitter to obtain this information.
- (c) In the case of PSPs, the contract will inform the expert reviewers of confidentiality requirements and penalties for non-compliance.
- (d) Expert reviewers will deliver both a hard copy and emailed (in MS Office format) report of the review of the submission, which will contain their findings, supporting analyses and data, to both the Secretary to the Board and to the Director of Contract Management and Special Projects in accordance with the expert review contract. In the case of PSPs that date that such reviews are due will be not less than 20 days before the disapproval date. In the case of CPPs, that date will be not less than 20 days before the Board meeting scheduled to consider the CPP.
- (e) The Secretary to the Board will forward the expert reviewers' reports and summary to the Board not less than 10 days before the disapproval date in the case of PSPs and no later than 10 days before the Board's meeting date in the case of CPPs.
- (f) The expert reviewers' written reports will address each of the following items within the scope of the expert reviewer's knowledge, and may include additional information at the discretion of the expert reviewer. The Board may remove or add items for the expert reviewers to analyze, depending on the nature of each submission. The expert reviewers written report will follow the format outlined in section 9.

(1) Protection of producers' interests.

- (A) Does the policy provide meaningful coverage that is of use to producers, and provide it in a cost-efficient manner?
- (B) Is the policy clearly written such that producers will be able to understand the coverage that they are being offered? Does the policy language permit actuaries to form a clear understanding of the payment contingencies for which they will set rates? Is it likely that an excessive number of disputes or legal actions will arise from misunderstandings over policy language?
- (C) Is the mechanism for determining liability (i.e., the amount of coverage) clearly stated and supported by an example?
- (D) Is the mechanism for determining the amount of premium clearly stated and supported by an example?
- (E) Are the mechanisms for calculating indemnities clearly stated and supported by an example?

- (F) In the case of price or revenue policies, are the mechanisms for establishing price clearly stated?
  - (G) Is adequate, credible, and reliable data available for establishing expected market prices for insured commodities? Is it likely that the data will continue to be available? Is the data vulnerable to tampering if the proposed policy is approved? Is the data likely to be available when needed? Is the proposed system for publishing prices feasible?
  - (H) Does the policy avoid providing coverage in excess of the expected value of the insured crop?
  - (I) Does the policy contain indemnity or other provisions that cannot be objectively verified by loss adjusters, underwriters, or auditors?
  - (J) Is the policy likely to treat all similarly-situated producers the same?
  - (K) Will insureds be able to comply with all requirements of the policy?
  - (L) Does the policy create vulnerabilities to waste, fraud, or abuse?
  - (M) Is the product likely to adversely affect the agricultural economy of the crop that is proposed for coverage, or of other crops or areas?
- (2) Actuarial soundness.
- (A) Is adequate, credible, and reliable rate-making data available? Is it likely that the data will continue to be available? Is the data vulnerable to tampering if the proposed policy is approved?
  - (B) Are the explicit and implicit assumptions used in the rating process reasonable?
  - (C) Are the technical analyses (e.g., stochastic and other simulations) technically correct? Do they provide credible, relevant results?
  - (D) Is the data used for the analyses appropriate, reliable, and the best available?
  - (E) Does the actuary certifying the submission's rates provide adequate and accurate support for the certification?
  - (F) Does experience from prior years and relevant crops and areas support the validity of the proposed rates?
  - (G) Is the product likely to be sold in a sufficient number such that actuarial projections would be credible?

(H) Does the submission increase or shift risk to another FCIC-reinsured policy?

(I) Are the proposed premium rates likely to cover anticipated losses and a reasonable reserve?

(3) Other review areas.

(A) Does this policy provide coverage that, in whole or in part, is generally available from the private sector?

(B) Does the policy propose to insure a peril that is not authorized by the Act?

(C) Does the policy place an unreasonable administrative burden on the insureds, AIPs, or the Federal crop insurance program?

(D) To the extent of the reviewer's knowledge, does the policy comply with all requirements of the Act and the public policy goals of the Corporation?

## 6 Other Reviews

(a) Review by the Office of the General Counsel. The Secretary to the Board will forward a copy of each original and revised submission to the Office of the General Counsel at the same time that they are delivered to the expert reviewers. The Office of the General Counsel will review the submissions for legal sufficiency and issue a written opinion.

(b) Review by RMA. RMA will submit to the Board a report which will address, at the discretion of RMA:

(1) Items specified in section 5(f);

(2) Its opinion of the nature and cost, both in personnel and financial terms, as well as the time needed to implement changes that may be required to the Actuarial System, Data Acceptance System, Reinsurance Accounting System, and other automated systems so as to properly support and implement the proposed product;

(3) Its opinion of the level of effort, cost, and time that would be required to provide actuarial filings, update and publish handbooks, manuals, and bulletins, publish prices, issue written agreements, and similar actions;

(4) The opinion of the Chief Financial Officer of RMA, in consultation with the affected RMA offices, as to the current and future availability of the funds and personnel that are needed to properly implement and support the product;

(5) Its opinion as to whether the requested level of administrative and operating subsidy,

premium subsidy, and reinsurance are appropriate;

- (6) Its opinion as to the potential impact of the submission on program integrity, RMA's ability to properly exercise its oversight responsibilities, or potential vulnerabilities for waste, fraud, and abuse;
- (7) Its opinion as to the submission's potential impact on the crop insurance market place and the agricultural economy for the proposed crops, as well as for competing crops and areas;
- (8) Its opinion as to whether the proposed date of introduction is likely to allow sufficient time for all AIPs to participate, train their personnel, and adequately inform producers of the availability and features of the product;
- (9) Its opinion as to whether the policy places an unreasonable administrative burden on the insureds, AIPs, or the Federal crop insurance program;
- (10) Any additional information that it has with respect to the submission; and
- (11) Its recommendation as to whether or not the submission should be approved.

## **7 Consideration By The Board**

- (a) The Board will consider the information provided by all expert reviewers;
- (b) Counsel to the Board will present his or her legal findings and opinion, and answer any questions or concerns the Board may have;
- (c) RMA will present its own findings and recommendation, and answer questions put to it by the Board; and
- (d) The Board may request the presence of any expert reviewer in order to answer questions in person, and will pay the associated travel costs and fees.

## **8 Format for Expert Reviewers' Written Reports**

- (a) The expert reviewers' written reports will consist of an executive summary and a research report.
- (b) The executive summary, not to exceed two pages in length, will summarize the findings of the reviewer, including significant weaknesses of the submission, if any, and a recommendation to the Board to approve, conditionally approve (state conditions), or disapprove the submission. The executive summary must be written for a lay person.

- (c) The research report will include the following sections:
- (1) A description of the methodology used by the expert reviewer.
  - (2) A discussion of issues surfaced in the review of the items listed in section 5(f). These issues should be clearly discussed, including the rationale for any “yes” or “no” answers.
  - (3) A recommendation by the reviewer to the Board – approval, conditional approval, or disapproval. If conditional approval is recommended, the reviewer must explain the conditions that must be met before they would recommend approval. If disapproval is recommended, the reviewer must explain why.
  - (4) An appendix of supporting material, calculations, etc.
  - (5) Short biographies (not to exceed one page) for each person who took substantial part in the expert review. The biography should include any experience, degrees, certificates, or other information to support the qualifications of the participant.
- (d) All written reports must be provided in hard copy and electronically by email in MS Office format. Emailed versions shall be sent to both the Director of Contract Management and Special Projects, and to the Secretary to the FCIC Board of Directors. The specific email addresses will be provided in each task order statement of work.