



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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

TO: Board of Directors
Federal Crop Insurance Corporation

July 11, 2001

FROM: Phyllis W. Honor
Acting Manager

SUBJECT: Board Memorandum No. 616
Resolution to Approve Reviewers and Alternates, Approve the Task Order Statement of Work for Review of “Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice” and Approve Execution of the Contract

There is submitted for your consideration and approval a resolution to approve a list of reviewers and alternates and the task order statement of work for the review of “Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice,” and to authorize the Manager of the Corporation to enter into contracts with the reviewers for the review of this submission.

The Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) (Act) requires the Board to enter into contracts for review of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed to be offered under the Act by persons experienced as actuaries and in underwriting. Attached is a list of persons and entities from the approved list of Board reviewers that are recommended to conduct reviews of the proposed “Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice.” Also attached is a task order statement of work necessary to execute the contract for this proposed Board action.

Through use of the following resolution, I recommend that: 1) the Manager of the Corporation be authorized to enter into and execute contracts with the persons or entities on the attached list, or the alternates in case the proposed persons are not available, to review “Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice” prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

R E S O L U T I O N

WHEREAS, The Federal Crop Insurance Act (Act) requires the Board to enter into contracts for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed to be offered under the Act by persons experienced as actuaries and in underwriting, NOW THEREFORE BE IT

RESOLVED: That: 1) the Manager of the Corporation be authorized to enter into and execute contracts with the persons or entities on the attached list, or the alternates in case the proposed persons are not available, to review "Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice" prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

A motion was made and seconded to amend Board Memorandum No. 616 to limit expert review to the proposed changes to the Commodity Exchange Endorsement harvest price discovery periods and the Commodity Exchange Endorsement base price discovery periods and to amend the maximum billed hours contained in the task order statement of work from 40 to 24.

The amendment carried.

The motion to adopt the resolution contained in Board Memorandum No. 616, as amended, carried.

PASSED

<u>/s/ Diana Moslak</u>	<u>7/11/01</u>
Diana Moslak	Date
Secretary	
Federal Crop Insurance Corporation	

[SEAL]

Approved by:

<u>/s/ Keith Collins</u>
Keith Collins
Acting Chairman of the Board

<u>7/12/01</u>
Date

Attachment 1 for Board Memorandum No. 616
“Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice”

Recommend reviewers:

1. John Pierce (Actuarial reviewer)
2. Jerry Skees (Underwriting reviewer)
3. Tom Smith (Underwriting reviewer)
4. Don Armstrong (Underwriting reviewer)
5. Economic Research Service (Government underwriting reviewer)

Alternate reviewers:

1. Muetterties, Bennett, and Assoc. (Actuarial reviewer)
2. Perkins and Assoc. (Actuarial reviewer)
3. Tom Knight (Underwriting reviewer)
4. Jeff LaFrance (Underwriting reviewer)
5. Alan Ker (Underwriting reviewer)

Attachment 2 for Board Memorandum No. 616

Task Order Statement of Work

Actuarial and Underwriting Reviews of “Crop Revenue Coverage for Crop Year 2002 Coarse Grains, Cotton, and Rice” for the FCIC Board of Directors

C.1. Background

The Agricultural Risk Protection Act of 2000 modified the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), to require the FCIC Board of Directors (Board) to establish procedures under which any policy or plan of insurance, as well as any related material or modification of such a policy or plan of insurance, submitted to the Board under section 508(h) of the Federal Crop Insurance Act be subject to independent review by persons experienced as actuaries and in underwriting.

C.2. Definitions

The expert reviewer shall conduct a review of the attached submission. The review is to include, but is not limited to, the items in C.5 Description of Work. For definitions of the terms used in C.5 Description of Work, see the definitions section of Interim Procedure For The Submission and Review of New and Revised Crop Insurance Policies approved by the Board on September 18, 2000.

C.3. Deliverables

Mandatory deliverables: The expert reviewer shall deliver both a hard copy and an electronic (MS Office) report of the review of the attached submission that includes: 1) a written summary of the findings of the review, not to exceed two pages in length, and 2) a written report addressing the items in C.5 Description of Work that are within the scope of the expert reviewer’s knowledge and any additional information at the discretion of the expert reviewer. In addition, the expert reviewer shall submit a personal biography not to exceed one page that describes the experience, education, and any certifications or professional designations that pertain to the expert reviewer’s ability to conduct the review.

Optional deliverables: When directed by the Board, the reviewer will be required to explain the results of the review to the Board either orally or in writing, or answer questions that may arise pertaining to the review. This option is at the sole discretion of the Board, and will be binding upon the reviewer for a period not to exceed 45 days after the required delivery date of the mandatory deliverables.

C.4. Delivery Schedule

Mandatory deliverables are due to both Diana Moslak, Secretary to the Board, FCIC/Risk Management Agency, Room 6624, Stop 0801, South Agriculture Building, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0801 (dmoslak@wdc.usda.gov) and to Vondie O'Conner, Director of Contract Management and Special Projects, 6501 Beacon Drive, Stop 0800, Kansas City, MO, 64133 (vondie@rm.fcic.usda.gov) by close of business on August 24, 2001.

C.5. Description of Work

The expert reviewer's mandatory written report 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.

- (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 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 and supported by an example?
 - (G) Are 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 of 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 certification from an actuary or similar person provide adequate support for the submission?
 - (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) 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 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 insured, the approved insurance provider, or the Federal crop insurance program?
 - (D) To the extent of the reviewer's knowledge, does the policy comply with all requirements of the Federal Crop Insurance Act and the public policy goals of the FCIC?
- (4) Attachments
- (A) The submission for review.
 - (B) Interim Procedure For The Submission and Review of New and Revised Crop Insurance Policies approved by the Board on September 18, 2000.

**Cost and Pricing
for
Actuarial and Underwriting Reviews for the FCIC Board of Directors**

The mandatory tasks shall be performed at the negotiated loaded hourly rate for the contract, and shall not exceed **24** billed hours. No other costs will be payable or reimbursed under the mandatory tasks. The option tasks, when required by the Board, shall be performed at the negotiated loaded hourly rate for the contract, and shall not exceed **16** billed hours plus any pre-approved travel expenses.

Upon delivery of the mandatory deliverables, the expert reviewer shall submit to the Director of Contract Management and Special Projects a signed invoice listing each person contributing to the review, their number of hours billed to this task, their negotiated contract rate for that person and clin, and the total amount billed for the task. The expert reviewer shall certify in writing to the accuracy of the billing information.