



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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Stop 0801
Washington, DC
20250-0801

TO: Board of Directors
Federal Crop Insurance Corporation

March 29, 2001

FROM: Phyllis W. Honor /s/ Phyllis W. Honor
Acting Manager

Minute Exhibit No. 2032
Board Meeting of 3/29/01

SUBJECT: Board Memorandum No. 604
Resolution to Approve an Expanded List of Reviewers for the Review of
Programs by Persons or Entities Experienced as Actuaries and in
Underwriting and an Amended General Statement of Work

There is submitted for your consideration and approval a resolution to execute contracts for reviews of policies, plans of insurance, and related materials. These contracts would be in addition to those authorized under Board Memorandum 575 (copy attached).

The Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), as amended by the Agricultural Risk Protection Act of 2000, requires the Board to enter into contracts with persons experienced as actuaries and in underwriting for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed under section 508(h) of the Act. Attached is a list of additional persons that preliminary market research indicates may be interested in, and qualified for, entering into contracts with the Board to conduct reviews. Also attached is an amended general statement of work (SOW) necessary to structure the basic contracts. On October 19, 2000, the Board amended the statement of work to require a one-page biography of each reviewer, an electronic and written hard-copy of the report, and to provide the Risk Management Agency (RMA) the option to require additional work. RMA has further amended the attached SOW to allow any pre-approved travel expenses. As specific items are submitted for Board action, more detailed task orders will be developed for assignment to the reviewers that have entered into a contract with the Board.

Through use of the following resolution, I recommend that: 1) the attached additional list of reviewers be approved 2) Risk Management Agency's Director of Contract Management and Special Projects be directed to perform the activities necessary to enter into contracts with persons or entities on the attached list, and 3) the attached general statement of work be used to structure the contracts.

R E S O L U T I O N

WHEREAS, The Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), as amended by the Agricultural Risk Protection Act of 2000, requires the Board to enter into contracts with persons experienced as actuaries and in underwriting for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed under section 508(h) of the Act, NOW
THEREFORE BE IT

RESOLVED: That 1) the Risk Management Agency be directed to perform the activities necessary to enter into contracts with persons or entities on the attached list, and 2) the attached general statement of work be used to structure the contracts.

PASSED

/s/ Diana Moslak 3/29/01
Diana Moslak Date
Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/s/ Keith Collins
Keith Collins
Acting Chairman of the Board

3/29/01
Date

Attachments

ATTACHMENT 1

Proposed Reviewers with Resumes

Actuaries, general:

John Pierce

Underwriters, general:

Kenneth Ackerman

William Hiatt

Michael O'Connell

Insurance Provider nominee:

American Farm Bureau Insurance Services

General Statement of Work

**Statement of Work for
Actuarial and Underwriting Reviews for the FCIC Board of Directors**

C.1. Background

The Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (Act), Public Law (P.L.) 104-127 signed April 4, 1996. This Act amended the Department of Agriculture Reorganization Act of 1994, P.L. 103-354, Title II, which required the Secretary to establish within the Department an independent office responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 et., seq.), any pilot or other program involving revenue insurance, risk management education, risk management savings accounts; the use of the futures market to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and, other programs the Secretary of Agriculture considers appropriate. The Agricultural Risk Protection Act of 2000 further modified the Federal Crop Insurance Act 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, shall be subject to independent review by persons experienced as actuaries and in underwriting, as determined by the Board.

C.2. Definitions

The vendor 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 vendor 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, 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 vendor. In addition, the 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 reviewers ability to conduct the review.

Optional deliverables: When directed by the Board through the Director of Contract Management and Special Projects, the reviewer will be required to explain the results of the review to the Board either orally or in writing, or answer any question 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 the Secretary to the Board not later than **[insert number of days]** calendar days after the date of award of the task order.

C.5. Description of Work

The expert reviewers' 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 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 and supported by an example?

- (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 can not 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 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 AIP's, 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?

5. 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 **[insert number of hours]** 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 **[insert number of hours]** billed hours plus any pre-approved travel expenses.

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