

APPENDIX 3
QUALITY ASSURANCE PROGRAM

LIVESTOCK PRICE REINSURANCE AGREEMENT
2004 REINSURANCE YEAR

The Guidelines and Expectations for Delivery of the Federal Crop Insurance Program (Manual 14), FCIC-14010, is incorporated by reference into the Livestock Price Reinsurance Agreement between the Federal Crop Insurance Corporation and the Company. In addition to the applicable Manual 14 procedures, the following sections are incorporated to provide for quality assurance of the delivery of Livestock Gross Margin (LGM) and the Livestock Risk Protection (LRP) plans of insurance.

Added Section 6.A.(4):

All sales agents, loss adjusters, and other company personnel must participate in a structured training program of at least 3 hours which is specifically related to each livestock plan sold. At the end of such structured training each participant must pass a basic competency test.

Added Section 7.C.(4)(e):

LGM Underwriting Review. The insurance provider must review a minimum of 5 percent of livestock price insurance contracts to:

- (i) determine the producer has adequate facilities to farrow, feed and/or finish the number of swine insured;
- (ii) determine adequate monthly finishing capacity;
- (iii) determine the accuracy of the application and the reasonableness of the target marketings certified by the producer.

Added Section 7.C.(4)(f):

LRP Underwriting Review. The insurance provider must review a minimum of 5 percent of the Livestock Risk Protection insurance contracts to determine that ownership eligibility and acceptance criteria have been met. Supporting documentation will be verified in all cases and on-site inspections made in accordance with policy terms as necessary. Supporting documentation deemed sufficient to support a certification of ownership include, but are not limited to:

- (i) bills of sale from prior owners;
- (ii) financing and credit documents which are secured by the insured livestock and make specific reference thereto; and
- (iii) written statements from third parties such as feed suppliers or veterinarians who have visited the farm or ranch and visually identified the livestock listed on the specific coverage endorsement; and
- (iv) bills of sale for the covered livestock.

Added Section 7.A.(5)(g):

LGM Claims Review. The insurance provider must conduct a documentation review of a minimum of 5 percent of indemnified livestock price insurance contracts to:

- (i) verify the accuracy of the marketing report submitted by the insured;
- (ii) verify the authenticity of the marketing receipts;
- (iii) verify that the indemnity was calculated correctly on the claims calculation worksheet.

Added Section 7.A.(5)(h):

LRP Claims Review. The insurance provider must conduct a documentation review of a minimum of 5 percent of indemnified livestock price insurance contracts. The following items, at a minimum, will be verified:

- (i) verify that insured value was established correctly;
- (ii) verify the accuracy of the specific coverage endorsement information;
- (iii) verify the end date of the policy used for the ending value (note policy language about weekends/holidays and ending values);
- (iv) verify that the actual ending value used to calculate the claim matches the value for the verified end date;
- (v) verify that indemnity was calculated correctly.

Add to Section 7.A.(13):

The livestock price insurance contracts review categories must be reported in the annual summary report.