



**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

FROM: Ross J. Davidson, Jr.
Manager

SUBJECT: Board Memorandum No. 797
Resolution to Approve Reviewers and Alternates, Approve the Task Order
Statement of Work for Review of the Nursery Price Endorsement Pilot
Docket: CI- Nursery Price Endorsement Pilot-05-01

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 the Nursery Price Endorsement Pilot, and to authorize the Manager of the Federal Crop Insurance Corporation (Corporation) to take such action as necessary to enter into contracts with the reviewers for the review of this submission.

Section 505(e) of the Federal Crop Insurance Act (Act) requires the Corporation's Board of Directors (Board) to enter into contracts with persons experienced as actuaries and in underwriting 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. Attached is a list of persons and entities from the approved list of Board reviewers that are recommended to conduct reviews of the Nursery Price Endorsement Pilot. Also attached is a task order statement of work necessary to execute the contract for this proposed Board action.

Through use of the attached resolution, I recommend that: 1) the Manager of the Corporation be authorized to take such action as necessary 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 the Nursery Price Endorsement Pilot prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

**Expert Review of the Nursery Price Endorsement Pilot
Docket: CI- Nursery Price Endorsement Pilot-05-01**

Attachment 1 for Board Memorandum No. 797, Exhibit 2786

FINAL RESOLUTION

WHEREAS, The Federal Crop Insurance Act (Act) 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 to be offered under the Act, NOW THEREFORE BE IT

RESOLVED: That: 1) the Manager of the Corporation be authorized to take such action as necessary 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 the Nursery Price Endorsement Pilot prior to Board action; and 2) the attached task order statement of work, as modified to reflect the concerns of the Board, be used to execute the contracts.

Adopted by the Board of Directors on: April 28, 2005

<u>/Signed/</u> _____	<u>April 28, 2005</u> _____
Byron Anderson	Date
Secretary	
Federal Crop Insurance Corporation	

[SEAL]

Approved by:

/Signed/ _____
Keith Collins
Chairman of the Board

April 29, 2005 _____
Date

**Expert Review of the Nursery Price Endorsement Pilot
Docket: CI- Nursery Price Endorsement Pilot-05-01**

Attachment 2 for Board Memorandum No. 797, Exhibit 2786

Recommend reviewers:

- | | |
|---------------------------|--------------------------|
| 1. Armstrong | (Actuarial reviewer) |
| 2. Bill Jones | (Actuarial reviewer) |
| 3. Informa Economics Inc. | (Underwriting reviewer) |
| 4. Dan Sheldon | (Underwriting reviewer) |
| 5. NCIS | (AIP nominated reviewer) |

Alternate reviewers:

- | | |
|------------------|--------------------------|
| 1. MBA | (Actuarial reviewer) |
| 2. Bickerstaff | (Actuarial reviewer) |
| 3. Robert Fenton | (Underwriting reviewer) |
| 4. Alan Walter | (Underwriting reviewer) |
| 5. Art Barnaby | (AIP nominated reviewer) |

**Expert Review of the Nursery Price Endorsement Pilot
Docket: CI- Nursery Price Endorsement Pilot-05-01**

Attachment 3 for Board Memorandum No. 797, Exhibit 2786

Task Order Statement of Work

**Actuarial and Underwriting Reviews of the “Nursery Price Endorsement Pilot” for
the FCIC Board of Directors**

C.1. Background

Section 505(e) of the Federal Crop Insurance Act (Act) (7 U.S.C. 1505(e)) requires 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 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 the attached Procedure for the Submission and Review of New and Revised Crop Insurance Policies approved by the Board on December 12, 2001.

C.3. Deliverables

Mandatory deliverables: The expert reviewer shall deliver a written report of the review of the attached submission.

- (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 to be understandable to a layperson.
- (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 C.5 Description of Work. 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 both in hard copy and electronically by email in a single file in MS Office format to the addresses specified in C.4.Delivery Schedule.

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 Vondie O’Conner, Deputy Secretary to the Board/Director of Contract Management and Special Projects, 6501 Beacon Drive, Stop 0800, Kansas City, MO, 64133 (vondie@rma.usda.gov) and to Cindy Spoor, Senior Staff Assistant, USDA/Risk Management Agency, Room 6606, Stop 0821, South Agriculture Building, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0821 (cindy.spoor@rma.usda.gov) by close of business on June 24, 2005.

C.5. Description of Work

- (a) The expert reviewers’ written reports will address each of the following items within the scope of the expert reviewer’s knowledge:
 - (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) Does the submission create potential excessive adverse selection, either by itself or in the presence of any other risk management product, whether reinsured by FCIC or not?
- (J) 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?

(4) Questions specific to Nursery Price Endorsement Pilot.

- a) Regarding the possibility of missing, high value plants after a hurricane, have the risks of fraud and abuse been mitigated?
- (b) The expert reviewers' written report may include additional information at the discretion of the expert reviewer.

C.6. Attachments

- (a) The submission for review.
- (b) Procedure for the Submission and Review of New and Revised Crop Insurance Policies approved by the Board on December 12, 2001.

C.7. Cost and Pricing Information

The mandatory tasks shall be performed at the negotiated loaded hourly rate for the contract, and shall not exceed the amount stated in the work order. No other costs will be payable or reimbursed under the mandatory tasks. The optional deliverable, 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 Cindy Spoor 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 Contract Line Item Number (CLIN), and the total amount billed for the task. The expert reviewer shall certify in writing on the invoice to the accuracy of the billing information.