



United States
Department of
Agriculture

Risk
Management
Agency

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March 4, 2009

INFORMATIONAL MEMORANDUM IS-09-002

TO: All Reinsured Companies

FROM: William Murphy
Deputy Administrator, Insurance Services

SUBJECT: 2010 Standard Reinsurance Agreement,
Appendix II - Plan of Operations Submission Guidance

Purpose

The purpose of this document is to provide guidance regarding the Risk Management Agency's (RMA) information requirements and expectations as it pertains to selected Plan of Operations (Appendix II) exhibits. The guidance is divided into three main sections:

1. General Submission Guidelines
2. Plan of Operation Guidelines for Specific Exhibits
3. Miscellaneous Reporting Guidelines

Action

The Company will provide the Plan of Operations Exhibits for the Standard Reinsurance Agreement (SRA) and Livestock Price Reinsurance Agreement (LPRA), as applicable, for the 2010 and subsequent Reinsurance Years (RY) in compliance with this memorandum.

Disposal Date:

This Informational Memorandum remains in effect until it is superseded.

If you have any questions, please contact Craig Witt, Director, Reinsurance Services Division at (202) 690-2957.

Attachments:

Exhibit 12 – Premium Estimates By Fund



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

An Equal Opportunity Employer

1. GENERAL GUIDELINES FOR SUBMISSION

Electronic Submission

A. Unless an Approved Insurance Provider (AIP) is specifically notified to the contrary, RMA will no longer require AIPs to submit the following items as part of the annual Plan submission:

- i. Exhibit 10a – Statutory Annual Statements
- ii. Exhibit 10b – Statutory Quarterly Statements *
- iii. Exhibit 10d – Management Discussion and Analysis
- iv. Exhibit 10f – Actuarial Opinion of Reserves
- v. Exhibit 10h – NAIC IRIS Ratios
- vi. Exhibit 18v – NAIC Insurance Expense Exhibit (IEE)

** Note: AIPs with Managing General Agencies (MGA) must remind the MGA to report Quarterly Statements directly to RMA, Reinsurance Services Division (RSD), within 30 days following the last day of the quarter.*

B. RMA requires:

- i. Each item listed in Appendix II (for either the SRA or LPRA) submitted electronically by April 1, 2009. The only exceptions are the Exhibits listed above under A i-vi.
- ii. All Plan exhibits submitted as individual files. The only exception to this rule is Exhibit 10, for which each sub-item will require its own file (i.e., 10m, 10n,).
- iii. The following exhibits (SRA) submitted in Excel™ spreadsheet format (“.xls”) to facilitate RMA’s quantitative evaluation process: 10m, 10n, 10o, 12, 13, 14, and 18b.
- iv. The following exhibits (LPRA) submitted in Excel™ format: 10m, 10n, 10o, and 16b (if not already submitted under the SRA); and 12 and 13.
- v. All other exhibits (either the SRA or LPRA) should be submitted as PDF files.

C. RMA requires the following naming convention for all submitted files:

- i. The AIP’s DAS reporting organization code.
- ii. The reinsurance year, i.e. 2010.
- iii. “EX” for SRA exhibits or “LEX” for LPRA exhibits.
- iv. Two digit exhibit number (i.e, 01, 02, 03); For item 10 exhibits only, follow the two digit “10” with a small case letter representing exhibits 10m, 10r, etc.
- v. Show submission date in YY-MM-DD format.
- vi. A period followed by the file type, i.e. “pdf” or “xls”.

Examples of proper file names for a fictitious AIP with “RO” as the Reporting Organization Code:

RO 2010 EX 01 09-04-01.pdf	(SRA, Exhibit 1)
RO 2010 EX 10r 09-04-01.pdf	(SRA, Exhibit 10r)
RO 2010 EX 13 09-04-01.xls	(SRA, Exhibit 13)
RO 2010 LEX 11 09-04-01.pdf	(LPRA, Exhibit 11)
RO 2010 EX 10j 09-04-01(Q1).pdf	(SRA, Exhibit 10j, first quarter financial statements)
RO 2010 EX 10n 09-04-01(previous).xls	(SRA, Exhibit 10n)
RO 2010 EX 10n 09-04-01(current).xls	(SRA, Exhibit 10n)
RO 2010 EX 10n 09-04-01(approval).xls	(SRA, Exhibit 10n)

2. PLAN OF OPERATIONS

The AIPs must review with particular care the following general information and exhibits to ensure full compliance with the SRA Appendix II:

Exhibit 10i – Organizational Chart

The following items constitute a complete Exhibit 10i:

1. SRA Holder (AIP) high level organizational chart: the chart must be sufficiently detailed as to show the ownership interests of the Company with respect to its parent, subsidiary, or other entities.
2. Managing General Agency (MGA) high-level organizational chart: (only applicable if the SRA shareholder uses a MGA) the chart must be sufficiently detailed as to show the ownership interests of the MGA with respect to its parent, subsidiary, or other entities.
3. Organizational chart of Insurance Operations: this chart must clearly delineate the major organizational departments and their respective personnel to show the administration and servicing of crop insurance, per section II.A.8. of the agreement. The chart must be “all inclusive” of the SRA Holder or MGA and its affiliated entity’s involvement in the crop insurance program.

Exhibit 10m – Commission Template

The Commission Template reflects the commissions paid to agents by state (policy location) and by Revenue; All Other; and Catastrophic Risk Protection (CAT) insurance. These amounts are separated between commissions paid as a percent of gross premium plus salaries paid, and all other compensation (e.g. transfer, loss experience, and collection bonuses, profit sharing, etc.). RMA requires the completion of the template, which will show the actual amounts for the previous reinsurance year (ended June 30 of last year), the actual amounts

plus any estimated amounts (e.g. projected collection bonuses, profit sharing, etc.) for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Exhibit 10n – Loss Adjustment Expense Template

The Loss Adjustment Expense Template reflects the crop-related expenses by reinsurance year. RMA requires the completion of all three templates, which will show actual amounts for the previous reinsurance year (ended June 30 of last year), the actual amounts, plus any estimated amounts for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Exhibit 10o – Estimated Expenses Template

The Estimated Expenses Template reflects crop-related expenses and revenues by reinsurance year, with estimates based on premium volume. Expenses are to be prepared according to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. RMA requires the completion of the template, which will show the actual amounts for the previous reinsurance year (ending June 30 of last year), the actual plus estimated amounts for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Exhibit 10r – Material Risk Assessment

1. The AIP must identify any material threats or risks that might prevent it from meeting its financial and operational obligations under this Agreement. This assessment must include possible financial or operational impacts, and the Company's plan and resources to mitigate or minimize risks.

For each of the risks listed below:

- (a) state the probability of the risk occurring;
- (b) describe the Company's rationale for this assessment; and
- (c) identify controls, mitigating actions, or plans the Company has established to manage the adverse effects of that risk.

Risks:

- (i) MPCCI operating expenses will exceed the Administrative and Operating expense (A&O) subsidy provided by FCIC.
- (ii) MPCCI underwriting gains are insufficient to offset an expense deficit, defined as actual MPCCI operating expenses exceeding A&O subsidy.
- (iii) Policyholder surplus decreases more than ten percent in any calendar year.

- (iv) Various threats cause a significant interruption in computer operations and data transfer (e.g. viruses, loss of hardware or communications over an extended period, etc).
 - (v) A rating agency determines the Company's ability to meet its current obligations are marginal and that its financial condition is vulnerable.
 - (vi) Lines of credit or other financial arrangements are inadequate to facilitate cash flow needs.
 - (vii) Commercial reinsurance availability is decreased or the cost increased (e.g. reduced ceding commissions, increased premium rates, increased Company retention).
 - (viii) Other potential threats to the Company's finances or operations that are not included above or in Exhibit 20.
2. The AIP must provide a copy of the latest maximum probable loss risk assessment, whether conducted by the AIP, a reinsurer, a reinsurance broker, or other party on behalf of the Company. The assessment must detail the magnitude and frequency of loss occurrence and include a description of the methodology used.

RMA seeks assurance that the Company management team and Board of Directors are fully aware of the risks that could negatively affect the Company's ability to meet the terms of the Agreement and how the Company is actively engaged in mitigating or minimizing those risks.

Exhibit 12 – Premium Estimates By Fund

The attached **Exhibit 12** has been revised to add a column that reflects whether the AIP, or if applicable its policy issuing companies, are licensed in a state. This change allows for the possibility that the AIP will write in these states. The data in the added column will be used to determine whether a policy issued in that state will be accepted into the Data Acceptance System (DAS) for further processing. Previously, only policies in a state where there was estimated premium were accepted into DAS for processing.

Exhibit 20 – Contingency Plan

The AIP must describe how the Company will service the policies reinsured under the Agreement in the event: (1) the managing general agent or service provider listed in Exhibit 8 is no longer able to meet the requirements of their agreement with the Company; (2) the Company is no longer able to meet the requirements of section II.A.8. and 9. of the Agreement; or (3) the Company is not eligible to participate in the Federal crop insurance program. The AIP must describe the Company's ability to meet the terms of the Agreement that is dependent upon obtaining the financial and operational resources needed to

deliver and service the Federal crop insurance program. The Company must be prepared to manage a delivery system failure by having assured access to alternative resources whether it is providing the service directly or contracting with a service provider.

For each of the three resources listed below the plan must:

- (a) identify the entity or entities responsible for providing the resource required to meet the terms of the Agreement;
- (b) determine the alternative means of obtaining the resource in the event the entity or entities listed in a) experience failure; and
- (c) provide the estimated time and other resources needed to fully transition the responsibility from the entity or entities listed in a) to the alternative entities listed in b).

Each service provider listed in Exhibit 8 must be identified and discussed using one or more of the following resources, as applicable:

1. Financial. The plan must ensure that sufficient financial resources will be available to continue proper operations, should occurrences adversely affect the Company's financial condition. In some cases, RMA will require that a Contingency Plan include guarantees or sufficient assurances from parent companies (or other entities) that financial resources will be available to meet the terms of the Agreement.

2. Computer and Information Systems. The plan must describe backup computer and information systems, how these systems will be deployed, and an estimate as to how long it would take to resume normal operations. For the 2010 and subsequent reinsurance years, the plan must specify whether the current and backup computer and information systems are managed in-house or outside of the company's operations. Also, the plan must specify the contingency plan of the backup computer and information system in the event it experiences failure.

3. Crop Insurance Expertise. The plan must ensure that the Company will have sufficient expertise in crop insurance sales, underwriting, loss adjustment, data processing, and other facets of crop insurance sales and service to assure continued operations. The plan must include a description of current and back-up physical security of systems, as well as security of information contained therein.

RMA seeks assurance that the Company management team and Board of Directors have considered all resources needed to meet the terms of the Agreement, and have authorized the provisions of the Contingency Plan.

Exhibit 22 – Quality Control Plan

RMA will evaluate the AIP Quality Control Plan (QCP) using an evaluation worksheet (Exhibit 22 on the RMA website) that cites specific requirements listed in the SRA. The QCP will be approved only if it successfully addresses and meets all of the requirements listed.

Exhibit 27 – Identification of Cooperative or Trade Associations

RMA requires the Company to ensure compliance with the SRA, Section II.A.4., which prohibits a company and its affiliates from providing a rebate except as authorized by the Federal Crop Insurance Act (Act). The Company must completely review their business operations, transactions, and those of any affiliates to ensure the appropriate disclosures are made as required in Exhibit 27 to qualify to provide a payment to producers through a cooperative or trade association as authorized by section 508(b)(5)(B), of the Act.

3. MISCELLANEOUS REPORTING GUIDANCE

1. Submission of Audited MGA Financial Statements. AIPs operating with an appointed Managing General Agency (MGA) must submit audited financial statements for the MGA specifically identified as Exhibit 10j for the year ended December 31, 2008 or, if using a different fiscal year, for the fiscal year most reflective of 2008 activity. If audited statements are not available at the time of Plan submission, please indicate the date when they are expected to be available. RMA reserves the right to delay the AIP's 2010 Plan approval without the receipt and review of the MGA's audited financial statements.
2. Livestock Price Reinsurance Agreement. If an AIP is applying under both the SRA and LPRA, it will be required to submit a complete SRA package and only those exhibits for the LPRA that are different from those of the SRA.

Pandemic Planning

AIP must submit a current, updated Business Pandemic Influenza Planning Checklist. AIPs must provide this progress report indicating steps that have been taken to increase readiness since last year's submission. The completed checklist must be submitted as Exhibit 10s in a PDF format using the following naming convention: "RO 2010 Pandemic YY-MM-DD.pdf"