



INFORMATIONAL MEMORANDUM: IS-11-003

**United States
Department of
Agriculture**

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Michael A. Alston /s/ Sharon Hestvik, for 4/20/2011
Deputy Administrator for Insurance Services

SUBJECT: Notice of Intent to Seek Outside Parties to Research the
Reasonable and Necessary Economic Cost of Program Delivery

BACKGROUND:

Private insurance companies were first authorized to sell and service Federal crop insurance policies in the Federal Crop Insurance Act of 1980. In contrast to commercial lines of insurance in which administrative and operating (A&O) expenses are loaded into the premiums paid by policyholders, the companies are reimbursed for these expenses on behalf of policyholders directly by the Risk Management Agency (RMA). The adequacy or excessiveness of the A&O reimbursement paid to companies has been an issue of legislative interest by Congress, an audit target for program oversight bodies, and a primary focus of recent negotiations on the Standard Reinsurance Agreement between the companies and RMA. The debate regarding program delivery costs and the level of A&O reimbursement was a topic during the 2008 Farm Bill discussions. As a result of those discussions, Congress directed the Government Accountability Office (GAO) to conduct a review of crop insurance delivery costs. In April 2009, GAO released Report GAO-09-445, "Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program." Among the recommendations provided by GAO was the following:

"The agency should also conduct a study of the costs associated with selling and servicing crop insurance policies to establish a standard method for assessing agencies' reasonable costs in selling and servicing policies."



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

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RMA agreed to the recommendation and intends to contract for a study to determine the reasonable and necessary economic costs of selling and servicing policyholders in the Federal crop insurance program. Previous studies of program delivery costs have typically approached the issue from an accounting perspective, based on the assumption that the amount that companies spend on program delivery are, by definition, the costs of delivery. A flaw in this approach is that these expenditures may not be directly or entirely related to the underlying economic costs for delivering a crop insurance policy.

ACTION:

RMA will soon solicit contract proposals for a study of the reasonable, appropriate and necessary economic costs for delivery of the Federal crop insurance program. Prior to doing so, RMA is seeking preparatory input from the agriculture industry, private insurance firms, consulting firms with expertise in related matters, the general public and other qualified parties that can bring this undertaking to fruition within the established time and operating constraints.

Please address all correspondence for the planned research project, no later than the close of business (local time) on **May 6, 2011**, to Howard N. Bobman, Insurance Management Specialist, at howard.bobman@rma.usda.gov or by mail to:

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DISPOSAL DATE

May 31, 2011