



United States
Department of
Agriculture

July 19, 2017

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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

INFORMATIONAL MEMORANDUM: COM-17-003

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

FROM: Heather Manzano
Deputy Administrator for Compliance

SUBJECT: Standard Reinsurance Agreement Appendix IV Reviews

BACKGROUND:

Approved Insurance Providers (AIPs) are required to conduct reviews of eligible crop insurance contracts (ECICs) as described in Appendix IV of the SRA. These reviews are intended to address suspected anomalies and program integrity concerns, or to assure that a company's internal control processes are operational and effective. The required reviews include Data Mining Reviews, Individual Policy Reviews, Conflict of Interest Reviews, Consecutive Loss Adjuster Reviews, \$200,000 Indemnity Reviews, and Rainfall Index and Vegetation Index Reviews.

The review requirements implicitly assume a single ECIC (and potential indemnity payment) for any insured commodity. However, new insurance features allow producers to purchase multiple insurance products for a given commodity, each covering a different aspect or layer of risk. For example, a producer may combine Revenue Protection with Margin Protection or the Supplemental Coverage Option and receive an indemnity payment from both insurance products. For this situation, AIPs have asked whether the two indemnity payments should be combined for purposes of determining whether a \$200,000 Indemnity Review is required. Questions of this nature are being raised with growing frequency because of the increasing scope of the crop insurance program.

In response, the Risk Management Agency (RMA) has developed the attached review matrix. The review matrix is intended to be a comprehensive guide to the reviews potentially applicable in any given situation. It also indicates the specific elements of an inspection that are required for these various situations. To illustrate use of the review matrix, consider the example above in which a producer purchased Revenue Protection combined with Margin Protection for the insured commodity. Per the review matrix, the two insurance products would be subject to separate \$200,000 Indemnity Review requirements, i.e., the two indemnities would not be summed to determine whether a \$200,000 Indemnity Review was required.

ACTION:

The attached review matrix is being provided as AIPs official guidance for program review requirements as described in Appendix IV of the SRA. This Informational Memorandum and the attached review matrix do not change existing AIP program review responsibilities. Rather, they clarify application of the review requirements, particularly for situations that did not exist when Appendix IV was drafted.

As clarification, an Individual Policy Review as described in Appendix IV, section III(b)(2), is a review of any individual ECIC (or ECICs) specifically assigned and denoted as such by RMA. The trigger for an Individual Policy Review is the specific notification by RMA to an AIP to conduct a review and denoted as such in email, letter, or similar correspondence providing the instruction.

When conducting a review of AIP operations, such as an AIP Performance Review, RMA will base its determination of whether the AIP has fulfilled its program review responsibilities by reference to the attached review matrix.

Any questions regarding interpretation or application of the review matrix should be directed to Kent Lanclos, Director – Business Analytics Division, by phone 202-205-3933 or by email kent.lanclos@rma.usda.gov.

DISPOSAL DATE:

Until modified or rescinded.

ATTACHMENT

Insurance Plans & Endorsements	Applicable Reviews						Inspection Element									
	Data Mining	Individual Policy	Conflict of Interest	Consec Loss Adjuster	\$200K Indemnity **	Rainfall & Veg Index	1	2	3	4	5	6	7	8	9	10 (a)
<i>Stand-Alone Insurance Plans</i>																
Individual Yield Based	y	y	y	y	y		y	y	y	y	y	y	y	y	y	
Asset Based	y	y	y	y	y		y	y	y	y	y	y	y	y		
Area Based		y	*		y		y	y	y	y	y	y	y			
Rainfall Index & Vegetation Index		y	*		y	y										y
Actual Revenue History	y	y	y	y	y		y	y	y	y	y	y	y	y	y	
Whole Farm Revenue Protection	y	y	y	y	y		y	y	y	y	y	y	y	y		
Margin Protection		y	*		y		y	y	y	y	y	y	y	y		
Stacked Income Protection		y	*		y		y	y	y	y	y	y	y	y		
<i>Two Insurance Plans</i>																
Individual Yield \ Margin Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
Individual Yield \ Stacked Income Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
Whole Farm \ Stacked Income Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Individual Yield	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	n \ y	
Whole Farm \ Area Based	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Asset Based	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Actual Revenue History	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	n \ y	
Whole Farm \ Margin Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
<i>Underlying Plan + Separate Endorsement</i>																
Individual Yield + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m	m	
Asset Based + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m		
Actual Revenue + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m		
Individual Yield \ Supplemental Coverage Option	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ n	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
Individual Yield \ High Risk Alternate Coverage	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Individual Yield \ CAT for High Risk Land	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Individual Yield \ Downed Rice Endorsement	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
<i>Underlying Plan + Factored Endorsement</i>																
Individual Yield \ Cottonseed Pilot	y \ n	y \ y	y \ n	y \ n	c		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	
Stacked Income Protection \ Cottonseed Pilot		y \ y	* \ n		c		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		

Individual Policy Review: A review of an ECIC specifically assigned by RMA to an AIP and denoted as such in the correspondence (email, letter) directing the AIP to conduct the review.

10 (a) Three percent random sample requirement applies to PRF, Apiculture, and Annual Forage.

** Only for cells denoted with a "c" are the first and second plan indemnities summed for \$200K Indemnity Review purposes. For all other entries, the indemnity triggers are independent.

Insurance Plan Category	Insurance plans included in category	Insurance Plan Category	Insurance plans included in category
Individual Yield Based	01, 02, 03, 41, 90	Actual Revenue History Endorsement	47
Asset Based	40, 43, 50, 51, 55	Whole Farm Revenue Protection	76
Area Based	04, 05, 06	Margin Protection	16, 17
Rainfall Index & Vegetation Index	13, 14	Stacked Income Protection	35, 36

Codes used in review matrix

y : Yes, review requirement is applicable to plan/endorsement

m : Yes, review requirement applicable to underlying plan as modified by endorsement

n : No, review requirement is not applicable to plan/endorsement

Blank cell : Does not apply

* : Currently not subject to a Conflict of Interest review as data mining does not identify anomalies among the individual ECICs for the indicated plans of insurance.

y \ y : Yes, applicable to first plan independent of second plan \ Yes, applicable to second plan (or endorsement) independent of first plan

y \ n : Yes, applicable to first plan independent of second plan \ No, not applicable to second plan (or endorsement)

c : Cumulative indemnity (\$200K Indemnity Review triggered if cumulative indemnity > \$200K)

** Only for cells denoted with a "c" are first and second plan indemnities summed for \$200K review purposes. For all other entries, the indemnity triggers are independent.

b : Triggered if same loss adjuster signs claim for indemnity for the underlying plan and/or endorsement in 3 consecutive years.

Illustrations:

Individual Based: Subject to all review requirements, and inspection elements 1-9.

Area Based: Subject only to Conflict of Interest and \$200K Indemnity reviews, and inspection elements 1-8.

Individual Yield \ Margin Protection: Ind Yield subject to all review requirements and inspection elements 1-9; Margin Protection subject to Individual Policy and \$200K Indemnity reviews with inspection elements 1-8. Do not combine indemnities for purposes of \$200K Indemnity review.

c: \$200K Indemnity review triggered if Indiv Yield indemnity + Cottonseed indemnity > \$200K, no \$200K Indemnity review if sum of indemnity payments ≤ \$200K.

b: Consec Loss Adjuster review triggered if same loss adjuster signs claim form 3 consecutive years for any combination of indemnity payments on plan and endorsement. For example, if adjuster A only signed the claim form for Individual Yield in year 1, the Downed Rice claim form in year 2, and the Individual Yield claim form in year 3, that would qualify for a Consec Loss Adjuster review.

Inspection elements as defined in the SRA

SRA Section I. Definitions

"Inspection" means verification:

- 1 As to whether the application, production report, acreage report, notice of claim, or other relevant documents in accordance with FCIC procedures (such as a Farm Report for AGR eligible crop insurance contracts) were timely submitted; [Note: Whole Farm has replaced AGR]
- 2 Of the information reported on the documents:
 - A Referenced in (1) above, and related to the claim, including preliminary and final loss adjustment (Verification of the approved yields will consist of examination of the records supporting the last three years certified for the crop); and
 - B Related to pre-harvest, growing season, or pre-acceptance examination of the crop;
- 3 That policy documents, including, but not limited to, actuarial documents, have been properly used and applied;
- 4 That the reported practice is being carried out in accordance with good farming practices;
- 5 That the crop has been planted, or replanted as applicable;
- 6 That the policy constitutes an eligible crop insurance contract;
- 7 That the producer qualifies as an eligible producer; and
- 8 That the agent or loss adjuster has complied with FCIC procedures."

SRA Appendix IV, Section III('c)

- 9 APH record reviews are required for all eligible crop insurance contracts reviewed under Appendix IV for which APH forms the basis for all or part of the guarantee.

SRA Appendix IV, Section III(b)(3)(D)

- 10 Review requirements for Rainfall Index and Vegetation Index plans of insurance. Three percent random sample requirement applies to PRF, Apiculture, and Annual Forage.

MUP: Endorsement that <u>Modifies Underlying Plan</u> of Insurance	
Dry Bean Revenue Endorsement	Adds revenue coverage to underlying policy
Dry Pea Revenue Endorsement	Adds revenue coverage to underlying policy
Florida Fruit Tree Comp Tree Value Endorsement	Adds CTV to underlying policy
Hawaiian Tropical Tree Pilot Crop Endorsement	Adds CTV to underlying policy
Hybrid Seed Price Endorsement	Adds alternative pricing mechanism for underlying policy
Malting Barley Endorsement	Adds alternative pricing mechanism for underlying policy
Northern Potato Certified Seed Endorsement	Provides coverage for certified seed potato production
Northern Potato Processing Quality Endorsement	Modifies production to count for underlying policy for quality adjustments for processing purposes
Northern Potato Quality Endorsement	Modifies production to count for underlying policy for quality adjustments
Northern Potato Storage Endorsement	Extends period for discovering insured losses for underlying policy
Nursery Price Endorsement	Adds alternative pricing mechanism for underlying policy
Nursery Rehabilitation Endorsement	Adds coverage for rehabilitation costs incurred to recover from injuries due to an insured cause of loss
Nursery Peak Inventory Endorsement	Adds coverage to increase liability during peak inventory period
Onion Pilot Stage Removal Option	Eliminates stage-based guarantees for underlying policy
Quarantine Endorsement	Adds quarantine as an insured cause of loss to underlying policy
Silage Sorghum Pilot Endorsement	Adds new crop to underlying policy
Sprinkler Irrigated Rice Endorsement	Adds new insurable practice to underlying policy
Sugar Beet Stage Removal Option	Eliminates stage-based guarantees for underlying policy
Sweet Potato Storage Endorsement	Extends period for discovering insured losses for underlying policy
Texas Citrus Tree Comp Tree Value Endorsement	Adds CTV to underlying policy
Texas Citrus Tree Coverage Enhancement Option	Adds CEO for underlying policy
Winter Coverage Endorsement	Adds options to underlying policy for winter kill of fall-planted wheat and barley