

United States
Department of
Agriculture



Federal Crop
Insurance
Corporation



Board of Directors



FEDERAL CROP INSURANCE CORPORATION

BOARD OF DIRECTORS

APPROVED PROCEDURES FOR DETERMINING REASONABLENESS OF REIMBURSEMENT EXPENSES FOR 508(h) AND CONCEPT PROPOSAL SUBMISSIONS

Effective Date: February 2010

Procedure Number: 170XX

(A) Basis, purpose and applicability.

- (1) This procedure establishes the guidelines by which Federal Crop Insurance Corporation Board of Directors (Board) will determine the ‘reasonableness’ of requests for research and development and maintenance costs for the submission of policies, provisions of policies and rates of premium under:
 - (i) Section 508(h) of the Federal Crop Insurance Act and 7 C.F.R. part 400, subpart V; and
 - (ii) Advance payments for concept proposals submitted under section 522(b).
- (2) The Board will approve only the amount of reimbursement or advance payment that it determines to be reasonable. When looking at reasonableness, the Board will look at:
 - (i) The tasks performed;
 - (ii) The number of hours claimed for each task;
 - (iii) The hourly wage claimed; and
 - (iv) The justification of the necessity of the task and the number of hours to perform such task.

(B) Definitions.

The definitions from subpart V and the Approved Procedures for Submission of Concept Proposals Seeking Advance Payment of Research and Development Expenses Procedure Number 17030; apply to these procedures unless otherwise specified in this section. In addition to the definitions in subpart V and Procedure 17030:

Actuarial costs - Costs incurred by the submitter directly related to the determination of premium rates and prices, excluding costs to certify the submission as actuarially appropriate which are reimbursable independent of actuarial costs.

Board - Federal Crop Insurance Corporation Board of Directors.

Copy - Extension of terms of a current Federally reinsured or previously reinsured plan of insurance with only minor revisions as the basis for the submission, such as introducing new or modified definitions. An example of such would be modifying the definitions in an existing Group Risk Plan to provide coverage to a new crop or area.

FCIC - Federal Crop Insurance Corporation.

Modification - A revision to a Federally reinsured or previously reinsured plan of insurance that includes revision of the policy, underwriting procedures, loss adjustment procedures to offer the plan of insurance to a new crop or area. The modification must be more substantial than adding definitions to accommodate the submission. An example of such would be modifying the underwriting and loss adjustment procedures of an existing plan of insurance to provide coverage for a new crop and/or area.

Non-actuarial costs - All other costs incurred by the submitter. Such costs are directly related to the development of the policy and include but are not limited to conducting feasibility studies, policy writing, underwriting, reviewing insurance documents, directing work, etc.

Original - A unique or original plan of insurance that is not based on or otherwise closely related to an existing Federally reinsured or previously reinsured plan of insurance. An extension of an existing plan of insurance to a new crop does not qualify as an original submission. Rather, the basis of the coverage must be fundamentally different than that provided under existing Federally reinsured or previously reinsured plans of insurance.

Other costs – These costs include the costs associated with preparation of the submission, legal and actuarial reviews, travel, etc.

(C) Submitted expenses for reimbursement of 508(h) submissions.

Subpart V provides guidance to applicants on the types of costs, verifiable documentation necessary and the time frame to submit expenses to be considered by the Board for reimbursement. However, the Board has determined that these regulations need to be clarified to allow it to conduct a meaningful review of the reasonableness of any request for reimbursement or advance payment.

As stated in subpart V, actual costs submitted may be adjusted at the sole discretion of the Board. To assist the Board in making this determination:

- (1) The Board will determine the category of the submission: as either a:
 - (i) Copy;
 - (ii) Modification; or
 - (iii) Original.
- (2) All costs must be placed into one of three categories:
 - (i) Actuarial costs,
 - (ii) Non-actuarial costs; and
 - (iii) Other costs.
- (3) Placement into one of these categories will be determined by the nature of the work, not the title of the task. For each category, in addition to the requirements of 7 C.F.R. § 400.712 (g), the submission must contain:
 - (i) A description of each task,
 - (ii) The number or hours spent on the task; and,

- (iii) A justification of why the task and hours spent were necessary.
- (4) The Board, at its discretion, may compare the costs claimed for all categories to similar products when assessing the reasonableness.
- (5) If the submitters request for reimbursement for any category exceeds the amount determined to be reasonable, as determined by the Board, the submitter may be required to further justify and substantiate their costs.
- (6) Costs to perfect a submission that has been determined to be of insufficient quality to refer to expert review may be considered non-reimbursable costs depending on the level of insufficiency of the submission as determined by the Board. Costs associated with addressing expert review responses will be evaluated based on the amount of time necessary to address the specific issue raised and may be reimbursed.
- (7) While the Board may consider the average costs of similarly approved products to determine reasonableness, the Board may also consider one or more specific similar approved plans and may request the Risk Management Agency to provide its estimate of time and level of effort required for a similar product developed under contract in its determination of the reasonableness of any requested reimbursement.

(D) Advance payments for Concept Proposals.

In considering advance payments for concept proposals, the Board will:

1. Determine the category of the submission:
 - a. Copy;
 - b. Modification; or
 - c. Original.
2. Determine reasonableness of estimated costs based on the costs associated with similar products.
3. May request the Risk Management Agency to provide its estimate of time and level of effort required for a similar product developed under contract in its determination of the reasonableness of any requested reimbursement
4. If the submitters request for an advance payment exceeds the amount determined to be reasonable, as determined by the Board, the submitter may be required to further justify and substantiate their costs. An advance payment is completely at the Board's sole discretion.