



United States
Department of
Agriculture

Risk
Management
Agency

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BULLETIN NO.: MGR-08-010

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Eldon Gould /s/ *Eldon Gould* 6/27/2008
Administrator

SUBJECT: Standard Reinsurance Agreement (SRA) – Appendix IV \$100,000 Claim
Reviews and Section II.A.13., Large Claim Reviews

BACKGROUND:

Prior to the 2005 reinsurance year, Manual 14, *Guidelines and Expectations for the Delivery of the Federal Crop Insurance Program* contained the requirement that Approved Insurance Providers (AIPs) review all claims over \$100,000. Additionally, the SRA negotiated for the 2005 and subsequent reinsurance years provided for government participation on certain large claim reviews equal to or exceeding \$500,000 under Section II.A.13. These requirements were arrived at through negotiations with the AIP representatives and are well established quality controls intended to provide a reasonable assurance to the taxpayer that these high-dollar claims are properly established and adjusted using FCIC-issued policies and procedures.

Questions persist about what qualifies a \$100,000 or a potential \$500,000 indemnity for review or notice to RMA under the SRA and related appendices.

Section III.A.18a. and b. of Appendix IV states:

“The Company is responsible for reviewing claims in excess of \$100,000 and reporting the results to FCIC in the annual report.

(a) The review will consist of an examination of the information pertaining to the guarantee and loss, including the results of field inspections, to determine whether the claim can be substantiated. The Company must document verification of the reported information pertaining to the claim and the sources used for verification.

(b) If the review reveals errors in the claim, the Company must correct the claim or deny the claim.”

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The Risk Management Agency Administers
And Oversees All Programs Authorized Under
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Section II.A.13 states:

“As a condition of reinsurance, prior to commencing any loss adjustment activities the Company must notify FCIC upon receiving notice of a potential claim on an eligible crop insurance contract, which is likely to exceed \$500,000, or such other amount as determined by FCIC.”

Section I of Appendix IV defines “verification” as “the determination of whether information submitted is true and accurate through independent means in accordance with procedures. With respect to certifications, asking the provider of the information whether the information is true and accurate does not constitute verification. Information from independent third parties or independent documentation must be obtained.”

“‘Field inspections’ means a visit to the policyholder’s farming operation for the purpose of making findings necessary to determine eligibility, compliance with program terms and conditions, the correct premium and any indemnity, prevented planting or replant payment, whether agents and loss adjusters have complied with all applicable procedures and include, but are not limited to, reviews for preliminary and final loss adjustment, pre-harvest or growing season inspection, and pre-acceptance inspections, the verification of adequate records, a determination that the reported practice is being carried out in accordance with good farming practices, a determination of whether the crop has been replanted, or to evaluate agent or loss adjuster conduct or the circumstances of a loss.”

ACTION:

For AIPs to complete \$100,000 claim reviews and properly establish the guarantee and indemnity, records substantiating the Actual Production History (APH) certification and the claim for indemnity must be examined and verified for accuracy. AIPs must verify the information on the documents is correct via third parties to the extent practical.

AIPs must review APH records in accordance with section 21 of the basic provisions which require the producer to maintain adequate records for review for three years after the end of the crop year in which such records were initially certified. If acceptable records are not provided, the APH must be corrected in accordance with approved policy and procedure.

Under the current SRA an “**Eligible crop insurance contract**” (ECIC) an insurance contract for an agricultural commodity authorized by the Act and approved by FCIC, with terms and conditions in effect as of the applicable contract change date, that is sold and serviced consistent with the Act, FCIC regulations, the procedures and this Agreement, having a sales closing date within the reinsurance year, and with an eligible producer (Commonly referred to as a county/crop contract).

To limit confusion relative to the \$100,000 and \$500,000 thresholds and their respective review requirements, Compliance and Insurance Services will use the "ECIC" definition as the basis for identifying claims that must be reviewed. Claims that fall within the ECIC definition for this purpose include:

- any single claim that exceeds the threshold for an ECIC due to prevented planting and/or production losses or area loss,
- any aggregate ECIC claims including claims that were closed and subsequent claims that exceed the threshold due to prevented planting and/or production losses,
- any ECIC claim that exceeds the threshold due to “calculated revenue” loss on an Adjusted Gross Revenue, Crop Revenue Coverage, Group Risk Income Protection, or Revenue Assurance plan of insurance.

Exception:

- for the Crop Revenue Coverage and Revenue Assurance plans of insurance; if neither the ECIC prevented planting and production losses nor the calculated revenue claim exceed the threshold, but the entire claim exceeds the threshold, RMA will not include the policy under the review requirement.

DISPOSAL DATE:

This bulletin will remain in effect until June 30, 2009.