INFORMATIONAL MEMORANDUM: COM–19-004

DATE June 03, 2019

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

FROM: Delores Dean, Acting Deputy Administrator for Insurance Services; Heather Manzano, Deputy Administrator for Compliance
/s/ Delores Dean and Heather Manzano 6/3/2019

SUBJECT: Multi-County Enterprise Unit (MCEU) Endorsement Large Claims and $200,000 Indemnity Reviews

Background

On December 13, 2018, the Risk Management Agency (RMA) issued Manager’s Bulletin MGR-18-017 which announced the availability of the MCEU Endorsement for eligible crops with a November 30, 2018, or later contract change date. This new Endorsement allows insureds to combine acreage of an insured crop, by irrigation practice, if applicable, in two contiguous counties in the same state into one enterprise unit, referred to as a MCEU.

As stated in the MCEU Underwriting Procedures, electing the MCEU Endorsement does not combine crop/county policies. Premium, guarantee, and liability are calculated separately for each county policy in the MCEU, based on the acres physically located in each county and the actuarial documents for that county. However, replanting, prevented planting, and claims for indemnities are determined at the MCEU level.

Approved Insurance Providers (AIPs) have asked whether the MCEU indemnity payment allocated to each physical county in a MCEU should be combined for the purpose of determining whether a $200,000 Indemnity Review or $500,000 Large Claim Notice is required.

When determining whether a claim could potentially reach the $500,000 threshold or trigger a $200,000 indemnity review, AIPs shall consider only potential loss amounts (or the calculated indemnity for $200,000 reviews) for an Eligible Crop Insurance Contract (ECIC) (all practices of a crop in a physical county). Once triggered, indemnity payments are reviewed at the unit level, requiring all acreage and production associated with each unit in an ECIC to be included in the review. To further clarify, MCEU-related reviews must include all ECICs in all primary and secondary counties associated with the MCEU that triggered the review.

Action

For Large Claims:

To comply with Part 4(31)(A) of the FCIC - 14040 Large Claim Standards Handbook (LCH), AIPs are required to determine if the production loss or indemnity could potentially exceed $500,000. When determining if the $500,000 threshold is met, AIPs shall restrict the potential indemnity calculation to the ECIC level, considering only MCEU potential indemnity amounts for each physical county.

Once the threshold is met, AIPs must notify RMA of a potential large claim and follow the LCH procedures. If RMA elects to participate in the large claim, the crop in all associated primary and secondary counties will be included in the review. When submitting a Large Claim Notification to the applicable Regional Office via the Regional Office Exceptions (ROE) system, AIPs should include only the ECIC in which the potential indemnity for the crop is likely to exceed $500,000.

MCEU example of determining the $500,000 threshold:

An insured has corn policies in Counties A, B, C, and D (four ECICs).
- County B forms an irrigated corn MCEU with County A as the secondary county.
- County B forms a non-irrigated corn MCEU with County C as the secondary county.
- County D forms a non-irrigated corn MCEU with County A as the secondary county.
- County D forms an irrigated corn MCEU with County C as the secondary county.

The following potential indemnities occur:

<table>
<thead>
<tr>
<th>Primary Practice</th>
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<tbody>
<tr>
<td>County B Irrigated</td>
</tr>
<tr>
<td>County D Non-Irrigated</td>
</tr>
<tr>
<td>County D Irrigated</td>
</tr>
<tr>
<td>County B Non-Irrigated</td>
</tr>
</tbody>
</table>

Because County B’s potential indemnities for the crop exceed $500,000 ($190,000 + $350,000), a large claim notification is triggered. The AIP must notify the applicable Regional Office.

For SRA Appendix IV $200,000 Indemnity Reviews:

Per SRA Appendix IV, section III(b), AIPs are responsible for conducting reviews of ECICs as described in the SRA Appendix IV Review Matrix. AIPs are required to determine if the indemnity for the ECIC exceeds $200,000. When determining if indemnities exceed $200,000, AIPs shall restrict the indemnity calculation to the ECIC level, considering only MCEU indemnity amounts for each physical county. Once the $200,000 threshold is met, a $200,000 Indemnity Review is required for the crop in all associated primary and secondary counties. In addition, the Appendix IV APH review requirement applies to all units of the crop in all associated primary and secondary counties.
MCEU example of determining whether a $200,000 Indemnity Review triggers:
An insured has corn policies in Counties A, B, and C (three ECICs).
- County A forms an irrigated corn MCEU with County B as the secondary county.
- County C forms a non-irrigated corn MCEU with County B as the secondary county.
- County A has a basic unit structure for its non-irrigated corn acres.
- County C has a basic unit structure for its irrigated corn acres.

The following indemnities occur:

<table>
<thead>
<tr>
<th>County</th>
<th>Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Irrigated</td>
</tr>
<tr>
<td>A</td>
<td>Non-Irrigated</td>
</tr>
<tr>
<td>C</td>
<td>Non-Irrigated</td>
</tr>
<tr>
<td>C</td>
<td>Irrigated</td>
</tr>
</tbody>
</table>

Because County A’s indemnities exceed $200,000 ($160,000 + $50,000), a review is triggered. Once the $200,000 indemnity review is triggered, all counties above:

Quality Control Reporting (P57) record must be submitted for every Insurance in Force (P14) record involved in the review. Beginning with the 2020 Reinsurance Year, in addition to a P57 record, a Quality Control Reporting Correction (P57A) record must be submitted for every PASS record in the review that requires correction.

The MCEU Endorsement does not impact requirements for Conflict of Interest Reviews, Consecutive Loss Adjuster Reviews, and Spot Check Reviews (growing season inspection, pre-harvest inspection, or APH review) since these reviews are generally not required by the amount of premium or indemnity. When a primary MCEU county policy is included on an RMA review list, the AIP will not expand that review to a secondary MCEU county policy, unless required by RMA. Likewise, if a secondary MCEU county policy is on an RMA review list, the AIP will not expand to the associated MCEU primary county, unless required by RMA.

Disposal: Effective until incorporated in procedure or otherwise superseded or rescinded.