COM-24-001: Guidance for Updating the SRA Appendix IV Review Matrix

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Date

March 5, 2024

To

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

From

Heather Manzano, Deputy Administrator for Compliance /s/ Heather Manzano

Subject

Guidance for Updating the SRA Appendix IV Review Matrix

Background

On July 19, 2017, RMA issued COM-17-003 to transmit a review matrix to Approved Insurance Providers (AIPs) which addressed frequently asked questions about review requirements and provided a document entitled Guidance for Updating the SRA Appendix IV Review Matrix. The required reviews under SRA Appendix IV include Data Mining Reviews, Operational Reviews, and Rainfall Index Reviews.

To enhance program integrity and use a more targeted approach for reviews, on August 23, 2019, the Federal Crop Insurance Corporation (FCIC) elected to require AIPs to perform a Data Mining Review in lieu of the $200,000 Indemnity Review.[1,2] The $200,000 Quality Control (QC) Review Report, now in effect, is published annually on HyDRA and describes the “exemption” process. RMA identifies the eligible crop insurance contracts (ECICs) to be reviewed using a targeted data mining approach to select the most anomalous policies with a loss at, or above, $200,000 for review. This Data Mining Review approach is being continued through CY 2024.

Prior to issuing this memorandum, RMA held discussions with Data Mining Steering Committee (DMSC) representatives in April, June, and December of 2023 and January 2024 and responded in writing to DMSC's July 2023, December 2023, and January 2024 questions and comments regarding RMA's proposal to update its data mining review criteria for $200K Indemnity Reviews.

In accordance with SRA, Appendix IV, Section III(b)(3), this Informational Memorandum (COM-24-001) is being provided to specify the review criteria as it relates to the $200,000 Indemnity Data Mining Review procedures. RMA is modifying the method used to determine whether a $200K Indemnity Data Mining Review is required to be performed by an AIP. These modifications are described in the attached Guidance for Updating the SRA Appendix IV Review Matrix and are effective on July 1, 2024, for reinsurance year (RY) 2025 and subsequent years. These updates are also reflected on the review matrix which includes clarification for commodities with varietal indemnities and review requirements for insurance products for which APH forms the basis for all or part of the guarantee. RMA is not proposing a change to the SRA definition of ECIC. [3]

While SRA, Appendix IV, Section III(b)(3)(C), $200,000 Indemnity Operational Reviews distinguishes between prevented planting losses (PP) and all other losses, FCIC's implementation of the superseding $200,000 Indemnity Data Mining Review on August 23, 2019, allows for alternate review criteria. To prevent disparate treatment between AIPs and further enhance program integrity, RMA has determined that for purposes of targeting ECICs for a $200K Indemnity Data Mining Review, data mining algorithms may refine the criteria specified in Appendix IV to identify the most anomalous claims activity while providing AIPs with an appropriate level of relief from having to perform an inspection on every ECIC with an indemnity of $200,000 or more. As such, RMA has determined that PP losses shall be combined with all other harvested (H) and unharvested (UH) losses of the producer for that commodity and an ECIC will include all the producer's commodity insured by the AIP under a given crop code for the crop year and county as the criteria for the $200K Indemnity Data Mining Review.

[1] SRA, Appendix IV, Section III(b)(3)
[2] August 23, 2019, Notification of Data Mining Review in lieu of $200,000 Operational Review
[3] SRA, Section I. Definitions

Action

Based on an in-depth impact analysis, the criteria for the $200,000 Indemnity Data Mining Review are being updated to include the following seven PASS data elements: Reinsurance Year, Commodity Year, State, County, AIP, Commodity Code, and Producer Tax ID. RMA will also update the method for applying the indemnity trigger by combining PP and H/UH indemnities for the $200K review trigger when determining the most anomalous ECICs for review. Disparate treatment of AIPs and producers is avoided by excluding the impact of multiple policy numbers on required reviews when an AIP insures the producer's commodity in the same county using two or more policy numbers for the underlying policy and endorsements/options. To enhance program integrity, RMA is updating the method of applying the $200K indemnity trigger with regards to PP and H/UH claims to target the most anomalous PP indemnities for AIP review.

To illustrate use of the updated review matrix, consider the example in which a producer purchased Revenue Protection combined with Margin Protection for the insured commodity in the same county for the same crop year with the same AIP. Per the updated review guidance and matrix, the indemnities for the two insurance products would be summed together to determine if a $200K Indemnity Data Mining Review is required regardless of whether the AIP used more than one policy number to insure the commodity. Further, if the producer had PP and H/UH indemnities, the PP and H/UH indemnities will be summed together to determine if the requirement for a $200K Indemnity Data Mining Review is triggered, e.g., total indemnity is or exceeds $200K.

This serves to inform our industry partners of updates made to the Guidance for Updating the SRA Appendix IV Review Matrix effective on July 1, 2024. The scope of the update is RY 2025 and subsequent reinsurance years and includes all policies comprising the ECIC with $200K or more in liability as of July 1, 2024. Based on these updates, AIPs are expected to perform an Inspection (as defined by the SRA) of the producer's entire farming operation for the commodity insured for the crop year in the same county by the same AIP for the $200K Indemnity Data Mining Review.

AIPs have two options going forward for performing Operational Reviews for $200K Indemnity Reviews: (1) AIPs may opt to conduct 100 percent of all required

$200,000 Indemnity Reviews according to the procedures under SRA, Appendix IV, Section III(b)(3)(C); or (2) AIPs may opt to perform $200,000 Indemnity Data Mining Reviews in accordance with the procedures identified in this memorandum.

Please notify Michael Whitefield at Michael.Whitefield@usda.gov by April 1, 2024, of your decision for Option 1 or Option 2.

Option 1: Effective April 1, 2024, AIP will perform $200,000 Indemnity Reviews effective per SRA Appendix IV, Section III(b)(3)(C). This option provides no relief from performing 100 percent of all required reviews.

Option 2: AIP will continue to follow the SRA Appendix IV required Operational Reviews and procedures, established on August 23, 2019, when FCIC elected to require AIPs to perform a Data Mining Review in lieu of the $200,000 Indemnity Review. The AIP accepts the updated data mining procedures as described in this memorandum effective for RY 2025 and subsequent reinsurance years.

Attachment: Guidance for Updating the SRA Appendix IV Review Matrix

DISPOSAL DATE:
Until modified or rescinded