

Guidance on Selected Appendix II Exhibits

Purpose

The purpose of this document is to provide guidance regarding RMA's information requirements and expectations as it pertains to selected Plan of Operations (Appendix II) exhibits.

Exhibit 10m. – Commission Template

This template reflects the commissions paid to agents by state (policy location) and by Revenue, All Other, and Catastrophic Risk Protection (CAT) insurance. These amounts are separated between commissions paid as a percent of premium plus salaries paid, and all other compensation (e.g. transfer, loss experience, and collection bonuses, profit sharing, etc.).

RMA requires the actual amounts for the previous reinsurance year (ending June 30 of last year), the actual plus estimated amounts for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Exhibit 10n. – Loss Adjustment Expense Template

This template reflects the loss adjustment expenses paid by state (claim location), with the exception of column H amounts which are to be recorded based on the state in which the loss adjuster resides. Include a narrative describing the allocation methodologies used to develop the expense amounts.

RMA requires the actual amounts for the previous reinsurance year (ending June 30 of last year), the actual plus estimated amounts for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Description of table column amounts:

B – Number of loss adjusters the Company has contracted, whether on a daily rate or other rate basis.

C – Number of loss adjusters the Company compensates on a salary basis.

E – Total rate payments made to the contracted loss adjusters enumerated in column B.

F – Total salary payments, including performance based compensation, to the salaried loss adjusters enumerated in column C.

G – Total travel expenses incurred by all loss adjusters, excluding travel for training. Loss adjustment travel expenses include hotel, mileage, meals, phone charges, and other related expenses.

H – Total miscellaneous expenses related to loss adjustment. Miscellaneous expenses include training (travel, materials, fees), loss adjustment (handbooks, forms, equipment), and allocated expenses (data processing, management, overhead, support staff, etc.).

J – Number of claims worked. A claim worked is defined as a claim assigned to a loss adjuster to make a loss determination, regardless of whether an indemnity is ultimately paid. RMA is not requesting the total number of notices of loss, but rather the number of claims that best account for the expenses incurred.

Exhibit 10o. – Estimated Expenses Template

The Estimated Expenses Template reflects crop related expenses and revenues budgeted for the reinsurance year, based on premium volume. Expenses are to be prepared according to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

RMA requires the actual amounts for the previous reinsurance year (ending June 30 of last year), the actual plus estimated amounts for the current reinsurance year, and the estimated amounts for the reinsurance year for which the Company is seeking approval.

Exhibit 10r. – Material Risk Assessment

Identify material threats or risks to the Company’s ability to meet its financial and operational obligations under this Agreement, including the possible financial or operational ramification, and the Company plan and resources to mitigate or minimize risks.

A. Provide a copy of the Company’s latest maximum probable loss risk assessment, whether conducted by the Company, a reinsurer, a reinsurance broker, or other party on behalf of the Company. The assessment must detail the magnitude and frequency of loss occurrence and include a description of the methodology used,

B. For each of the risks listed below: (a) state the probability of the risk occurring; (b) describe the Company’s rationale for this assessment; and (c) identify controls, mitigating actions, or plans the Company has established to manage the adverse effects of that risk.

1. MPCCI operating expenses will exceed the Administrative and Operating expense (A&O) subsidy provided by FCIC.

2. MPCCI underwriting gains are insufficient to offset an expense deficit, defined as actual MPCCI operating expenses exceeding A&O subsidy.

3. Policyholder surplus decreases more than ten percent in any calendar year.
4. Various threats cause a significant interruption in computer operations and data transfer (e.g. viruses, loss of hardware or communications over an extended period, etc).
5. A rating agency determines the Company's ability to meet its current obligations is marginal and that its financial condition is vulnerable.
6. Lines of credit or other financial arrangements are inadequate to facilitate cash flow needs.
7. Commercial reinsurance availability is decreased or the cost increased (e.g. reduced ceding commissions, increased premium rates, increased Company retention).
8. Other potential threats to the Company's finances or operations that are not included above or in Exhibit 20.

RMA requires assurance that the Company management team and Board of Directors are fully aware of the risks that could negatively impact the Company's ability to meet the terms of the Agreement and, through proper management controls, the Company is actively engaged in mitigating or minimizing those risks.

Exhibit 20. – Contingency Plan

Describe how the Company will service the policies reinsured under the Agreement in the event: the managing general agent or service provider listed in Exhibit 8 is no longer able to meet the requirements of their agreement with the Company; the Company is no longer able to meet the requirements of section II.A.8. and 9. of the Agreement, or is not eligible to participate in the Federal crop insurance program.

The Company's ability to meet the terms of the Agreement is dependent upon obtaining the financial and operational resources needed to deliver and service the Federal crop insurance program. Whether a Company is directly providing the resource or contracts with a service provider, it must be prepared to manage a delivery system failure by having assured access to alternative resources.

For each of the three resources listed below: (a) identify the entity or entities responsible for providing the resource required to meet the terms of the Agreement; (b) alternative means of obtaining the resource in the event the entity or entities listed in a) experience failure; and (c) the estimated time and other resources needed to fully transition the responsibility from the entity or entities listed in a) to the alternative entities listed in b). Each service provider listed in Exhibit 8 should be identified and discussed with one or more resources, as appropriate.

The specific resources the Company must consider in its response are:

1. Financial. The plan must ensure that sufficient financial resources will be available to continue proper operations, should occurrences adversely affect the Company's financial condition. In some cases, RMA will require that a Contingency Plan include guarantees or sufficient assurances from parent companies, or other entities, that financial resources will be available to meet the terms of the Agreement.
2. Computer and Information Systems. The plan must describe backup computer and information systems, how these systems will be deployed, and an estimate as to how long it would take to resume normal operations.
3. Crop Insurance Expertise. The plan must ensure that the Company will have sufficient expertise in crop insurance sales, underwriting, loss adjustment, data processing, and other facets of crop insurance sales and service to assure continued operations.

RMA requires assurance that the Company management team and Board of Directors have considered all resources needed to meet the terms of the Agreement, and have authorized the provisions of the Contingency Plan.