

Interview Guides for AIPs Federal Crop Insurance Program

Objective:

The guide was prepared as a tool to guide the conversations that the contractor will have with industry participants in order to gain a thorough understanding of the business and operating models that are used in the crop insurance delivery system. The ultimate aim of this phase of the project is to use the information collected in these interviews to effectively design a data collection approach that will be used to collect information relevant to the costs incurred by insurance companies and agents in their role of providing crop insurance to producers and to assist in interpreting the data collected via surveys.

AIP Interview Guide

I. Company Background

1. How long has your company been selling the Federal crop insurance?
2. What are the major regions your company sells the Federal crop insurance?
3. Does your company sell other lines of insurance products as well? If so, what are they?
4. Does your company use both captive agents and independent agents to sell the Federal crop insurance policies? Are the independent agents you hire generally affiliated with an insurance agency or are they operating independently?

II. Competition Strategy & Operating Model

1. Competition Strategy

- a. Does your company sell crop insurance policies nationwide or does your company only focus on particular states?
- b. Can you discuss your approach in selling the crop insurance? Does your company specialize in particular crop insurance or write insurance on all types of crops?
- c. What are the strategies that you think are most effective in competing for crop insurance business? For example;
 - Are they different from those you utilize for competition in other lines of products?
 - How does your company differentiate itself in the marketplace?
 - Who are your company's primary competitors?

2. Operating Model

- a. What is your company's operating model?
 - Is your business centralized or decentralized?
 - In which areas do you outsource your operations?
- b. What is the appropriate level of automation for your company?

3. Underwriting Process and Expenses

- a. Has the underwriting process remained relatively stable over time or has it been changing over the years?
 - Why have the fluctuations occurred?
 - Does your company's underwriting process differ from competitors? How does it differ?
- b. What are the major factors driving the underwriting expenses?
- c. What level of automation is there for underwriting and rating?

III. Questions on Insurance Agents & Agents Compensation

1. Contract with Crop Insurance Agents

- a. Can you provide us a sample contract between your company and the crop insurance sales agent and a sample contract between your company and other sales agents? What are the major differences (if any) between the contracts with crop insurance agents and agents selling other lines of insurance?
- b. Does your company use a standard template when contracting with the crop insurance agent?
- c. Do the contracts vary considerably by region, plan of insurance, insurance Agency/agent, etc.?

2. Interaction with Crop Insurance Agents

- a. Please describe the process of how your company interacts with agents and the relationship of your company with crop insurance agents and other types of agents.
 - How do you sign up new crop insurance agents?
 - What are the challenges associated with finding a crop insurance agent relative to other agent?
 - Can you discuss whether the relationship with other types of agents is different from that with crop insurance agents?
 - Does your company have captive agents? What is the percentage of captive agents relative to independent agents? What are the major factors that influence your decisions in using an independent agent instead of a captive?
 - For both captive and independent agents, do they sell other lines of insurance products as well?
 - Can you describe your company's agent network in terms of the percentage that are full time versus part time agents?
 - Is the interaction with the agents automated, manual, or a combination?
- b. Major Services Provided to Agents
 - Can you describe the major services/functions (e.g. clerical work and processing, IT system, marketing) your company provides to the crop insurance agents? Do some of the agents you work with perform these services on your behalf?
 - How are the services provided to crop insurance agents comparing to those provided to sales agents for other lines of insurance? Are there any services unique about the crop insurance?

- How does your company generally account for the cost incurred in providing such services? Does that usually represent a reduction in the commissions paid to the sales agents?

c. Agent Turnover

- What is the turnover rate for crop insurance agents? How does that compare to the turnover rate of other agents?
- What do you think are the main reasons for a crop insurance agent to switch to selling another line of insurance product and/or contracting with another insurance company?
- How difficult is it for crop insurance agents to move into other areas of insurance?
- How difficult is it for other types of agents to enter the crop insurance business?

3. Agent Commissions

- a. How does your company determine the commissions paid to crop insurance agents for their sales efforts?
- Is the commission generally a fixed percentage of premiums written or is it a flat fee plus a markup? Is it sensitive to the amount of losses?
 - What is the rationale behind the formula used to calculate the commission payment?
 - What are the major factors affecting the commissions? Are they different across crop types, region, plan of insurance, size of insurance agency, new vs. renewal business, different products such as revenue or GRIP?
- b. How are the commissions paid to captive crop insurance agents comparing to those paid to independent agents? Are they in general comparable?
- c. How are the commissions paid to crop insurance agents comparing to those paid to agents selling other insurance products? Are they in general comparable?

4. Profit-sharing with Agents

As one important competition strategy, we understand the insurance company usually shares with the Agent a portion of their underwriting profit in order to provide better incentives.

- a. How important is it to share the underwriting profit with the Agent in order to retain their business?
- b. Besides being competitive, are there any other factors that drive your company's decision in sharing part of the underwriting gain with the agents?
- c. How does your company determine the profit-sharing percentage with the agent?
- d. Does the profit-sharing formula vary by region, crop, type of insurance, size of insurance agency, etc.?
- e. Does your company pay the share of the underwriting profit due to the agent from the A&O subsidy received from RMA? If not, what is the source of payment?
- f. What is the effect of the agent compensation cap imposed under recent RMA regulation (i.e. agent compensation not exceeding 80% of the A&O subsidy) has on your

arrangement of compensation payments to the crop insurance agents? How will this cap imposed on payment on agent compensation affect your current payment arrangement with the agent?

5. Cost of Delivery by Agent

a. Effort on Measuring Cost

- Have you made any efforts to measure the actual cost of delivery incurred by the agent and compare that to your current commission payment to ensure agents are appropriately compensated?
- Please describe the primary fixed and variable costs incurred by your Company (including costs associated with agent activities).
- How has the relationship between fixed and variable costs trended over the past 5-10 years? What are the internal and external factors influencing this trend?
- Are agents compensated (reimbursed) based on costs incurred? How are these costs isolated?
- Are you aware of any studies of crop insurance agent work effort by type of insurance?

b. Variation in Cost

- Do you think the actual cost of delivery vary by region, crop, insurance plan (e.g., CAT), crop insured under the FCIP, and size of Agency?
- Have you considered the possible variations in cost when designing your commission payments?
- Do the commission rates vary between new and renewal business?

c. Major Contributors to Cost

- What do you think are the major contributors to the agent's cost of delivery (e.g. Office, support staff, operating expense, technology investment, prospecting)?
- Can you describe any efficiency gains or savings from the use of technology? How has this changed over the past 5- 10 years?
- Do you have a good understanding the agent's actual operating expenses? Are there trends in the expenses?
- Please describe best practices in terms of what are efficient agent operations.
- What changes could be further made to drive better efficiencies in your interaction with agents (e.g. increase the level of automation)?
- Are there unique aspects about the crop insurance that make its cost of delivery differ from that of other insurance?

d. Sufficiency of Agent Compensation

- Do you think the A&O payment you received from RMA is sufficient to cover the total agent compensation (commission plus profit sharing) you paid to the agent?
- Excluding the profit-sharing bonus from the total compensation you currently pay to the crop insurance agent, do you think the remaining amount is still enough to fairly compensate the agents for their sales efforts?

e. Captive vs. Independent Agents

- Do you think it generally costs less for a captive agent to sell the crop insurance than an independent agent?

- How does the comparison in cost drive your decisions in using a captive vs. independent agent?
- Does the same thing happen in other lines of your company's business?

IV. A&O Payment & RMA Regulations

1. A&O Payment & Underwriting Gain/Loss Sharing with FCIC
 - a. What are your general concerns with the A&O payment process set under the most recent SRA (2013 SRA)?
 - b. Do you think in general the A&O payment sufficiently covers the operating and administrative cost you incurred in providing the Federal crop insurance? If not, can you please explain why?
 - c. In the SRA, there are detailed specifications on calculating and splitting with FCIC the underwriting gain and loss. Do you think the profit-sharing scheme specified within the SRA fairly compensate you for the risk you retain?
2. Administrative Burden
Insurance company officials declared recent RMA regulations have added a significant administrative burden.
 - a. Can you explain what additional functions are required on your side as a result of recent RMA regulations that may contribute to an increase in your operating cost?
 - b. Have you made any effort to quantify the extra cost?
3. Perspectives on RMA Regulations & Federal Crop Insurance Industry
Can you briefly talk about your perspectives on future RMA regulations that may be put in place? In addition, your perspectives on the Federal crop insurance industry in general.

V. LAE Expense & Other Operating Expense

1. Loss Adjustment Expense (LAE)
We recognize there are two types of loss adjustment expenses referred to as "defense and cost containment expense" and "adjusting and other expense".
 - a. What are the major factors in LAE expenses? Please distinguish between defense and cost containment expense and adjusting and other expense.
 - b. What is the level of automation associated with the claim handling process? Is any portion outsourced?
 - c. What is the percent of claims that are litigated?
 - d. Is your company's LAE for crop insurance generally higher/lower than that for other insurance?
 - e. Does the LAE for crop insurance in general vary by region, plan of insurance, crop type, etc.?

- f. Does your company employ both captive and independent adjusters?
 - What is the percentage of captive adjuster relative to the independent adjuster?
 - What drives your company's decision in hiring an independent adjuster instead of a captive one?
 - Which type of adjuster is more cost effective?
2. Other Operating Expenses
- a. Other Operating Expenses
 - What are the general expenses categories (underwriting, rating, customer service, IT, management, buildings, accounting, risk, and compliance, etc)?
 - Are these costs generally changing or do they remain consistent?
 - Are there ways to reduce these costs?
 - b. Variation in Overhead Expense
 - Does your company's overhead expense associated with the crop insurance vary significantly over time or does it remain relatively stable?
 - Does the overhead expense vary by region, crop and insurance type?
 - c. Cost Allocation Method

In reporting the overhead expense associated with the crop insurance, what cost allocation method have you employed to differentiate the overhead expense incurred for selling crop insurance from that for selling other insurance?
 - d. Crop Insurance vs. Other Insurance

Do you think the overhead expense associated with crop insurance is comparable to that for other insurances? If not, please explain why?
 - e. Procedures to Increase Efficiency

What are the procedures that either RMA or the insurance company has implemented (are implementing) that may help increase the operation efficiency and reduce the overhead expense?

VI. Financial Reporting to RMA

We have some questions on the financials that your company filed to the RMA (specifically the financials contained in the Total Expense Template).

1. Loss Adjustment Expenses (LAE)

Do the Loss Adjustment expenses include the expenses incurred by both independent and captive adjusters or just those incurred by independent adjusters? If the latter, where is the LAE incurred by captive adjusters recorded?
2. Commission & Brokerage

Does Commission & Brokerage include commissions paid to both captive and independent agents? Does it also include the profit-sharing bonus/contingent commission paid to both types of agents? In cases when the agents also perform certain supportive functions for the company (e.g. clerical and processing), how are their compensations for such services recorded?

3. Salary & Related Items (Salary and Bonus Expense, Payroll Taxes, Employee Benefits, and Employee Relations and Welfare)

What do these items include? Do they include the base salary, commissions, profit-sharing bonuses and benefits paid to the captive agents?

4. Employee Benefits, Employee Relations and Welfare, Travel & Travel Related Expenses, Taxes, License and Fees

Please confirm that nothing in the above categories include benefits paid to or expenses incurred by independent agents (e.g. pension benefits, out-of pocket travel expense and independent agent license fees). In other words, please confirm that all payments to independent agents are included in Commissions and Brokerage.

5. Misc Operating Expenses

Please describe what types of activities are included in miscellaneous operating expenses. Please explain how the miscellaneous operating expenses related to the crop insurance are determined. Does it involve any kind of allocation (say, of overhead expenses) across different lines of business?

6. Private Reinsurance Commissions/Fees Received

Can you explain what these commissions/fees represent? Are they the commissions/fees the company receives from the reinsurers for the ceded premiums?

VII. Other Questions

1. Profit Comparison across Lines of Business
 - a. What are the major factors that lead your company to participate in the Federal crop insurance program?
 - b. Comparing with other lines of business, is the profit margin you earned from the crop insurance comparable to those from other lines?
 - c. Is the profit margin the major factor that determines your strategy in expanding/reducing the scale of business in the crop insurance program?