

UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Crop Insurance Program Delivery Cost Survey and Interviews
OMB NUMBER: 0563-NEW

A. JUSTIFICATION

1. EXPLAIN THE CIRCUMSTANCES THAT MAKE THE COLLECTION OF INFORMATION NECESSARY. IDENTIFY ANY LEGAL OR ADMINISTRATIVE REQUIREMENTS THAT NECESSITATE THE COLLECTION.

The Risk Management Agency (RMA) of the U. S. Department of Agriculture (USDA) provides Federal crop insurance to American producers through the Federal Crop Insurance Corporation (FCIC) that manages the Federal crop insurance program. The insurance is provided through cooperative financial assistance agreements with private insurance companies, known as Approved Insurance Providers (AIPs), which in turn work with insurance agencies/agents to sell Federal crop insurance. The insurance companies that sell and service FCIC policies are reimbursed for their administrative and operating (A&O) expenses directly by RMA on behalf of the policyholders. The adequacy or excessiveness of the A&O expense reimbursement paid to AIPs has been an issue of legislative interest by Congress, an audit target for program oversight bodies, and a primary focus of recent negotiations between the insurance companies and RMA. Accordingly, various studies have been undertaken to measure program delivery costs for purposes of evaluating the adequacy of the A&O payments. However, these studies have typically approached the issue from an accounting perspective, with the assumption that AIP accounting expenditures for delivery (including sales commissions paid to insurance agencies/agents, the loss adjustment expenses for verifying claims, and other operating/overhead expenses) are, by definition, the economic cost of delivery. While for loss adjustment and other operating costs, significant disparities are not presumed to exist between AIP reported accounting costs and economic costs, the sales expenses reported by AIPs have a less direct relationship to the actual costs incurred by insurance agencies/agents in selling and servicing the Federal crop insurance. In theory, the sales commissions reported by AIPs represent the revenue of insurance agencies/agents rather than their costs, which makes invalid any attempt to estimate the cost of delivery incurred by insurance agencies/agents using accounting expenditures reported by AIPs. No study to our knowledge has been conducted to appropriately measure the economic cost of delivery for the Federal crop insurance program, especially the cost of delivery incurred by insurance agencies/agents in selling and servicing the Federal crop insurance to producers farming crops in the United States.

The Government Accountability Office (GAO) conducted a review of crop insurance delivery costs, and in April 2009, GAO released Report GAO-09-445, “*Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program*” (2009 GAO Report). One of GAO’s recommendations was that RMA conduct a “study of the costs associated with selling and servicing crop insurance policies to establish a standard method for assessing agencies’

reasonable costs in selling and servicing policies.”¹ In accordance with GAO’s recommendation, RMA is currently conducting a study to determine the reasonable and necessary economic costs of selling and servicing Federal crop insurance policies.

The information collections (i.e., interviews and surveys) discussed herein represent an important part of RMA’s efforts to estimate the economic costs of selling and servicing Federal crop insurance policies. The USDA RMA efforts to estimate these costs will be supported by professionals from KPMG LLP (KPMG)’s Economic and Valuation Services (EVS) practice. KPMG is an independent contractor and will assist RMA in collecting information on the costs of delivery, including costs incurred by agents in selling and servicing policies to producers and costs and margins earned by the 15 approved insurance providers (AIPs). The information will help identify opportunities for improvement (e.g., increased efficiency) in the delivery system. In addition to conducting interviews with AIPs, insurance agents, and insured producers, KPMG will survey a sample of insurance agents and insured producers associated with these insurance agents in order to collect information that will be used to estimate the economic cost of delivery incurred by insurance agents in selling and servicing the Federal crop insurance.

RMA will use the information collected from the interviews and surveys in conjunction with the financials reported by AIPs to construct estimates of the cost of delivery for the Federal crop insurance program. This information could also be used in RMA’s program planning process before implementing any regulatory and programmatic changes in the future. Data collected from the interviews and surveys can also provide RMA some useful information on the Federal crop insurance program from the perspectives of different stakeholders (AIPs, insurance agents, and insured producers) and aid RMA in its program management and program planning.

2. INDICATE HOW, BY WHOM, AND FOR WHAT PURPOSE THE INFORMATION IS TO BE USED. EXCEPT FOR A NEW COLLECTION, INDICATE THE ACTUAL USE THE AGENCY HAS MADE OF THE INFORMATION RECEIVED FROM THE CURRENT COLLECTION.²

Interviews with AIPs, Insurance Agents, and Insured Producers

RMA’s contractor, KPMG, will interview up to 15 AIPs. The purpose of these interviews with AIPs is to understand the activities performed and types of costs incurred by the AIPs in delivering Federal crop insurance. Information collected from the interviews with AIPs include general companies’ background, competitive strategies, and business operations model in selling and servicing the Federal crop insurance, agent compensation, expense structure, and financial reporting to RMA. Up to 15 of the AIPs operating in the Federal crop insurance business in 2012 will be interviewed primarily over the phone and occasionally face-to-face by visiting company’s premises. Information obtained from the interviews with AIPs will help RMA understand the expenses AIPs incur in delivering the Federal crop insurance, their general practices in determining agent compensation, and compiling financials reported to RMA. We will randomly sample up to 15 insurance agents for interviews from all insurance agents

¹ 2009 GAO Report, page 24.

² In this statement, we may frequently use the pronoun “We” which will frequently refer to KPMG, the contractor performing the study on behalf of RMA.

selling and servicing Federal crop insurance in 2011. Interviews with insurance agents will be conducted primarily over the phone. The purpose of the interviews with insurance agents is to get a deeper understanding of the activities performed and types of costs incurred by the insurance agents in selling and servicing Federal crop insurance. Information collected from the interviews with insurance agents includes general background information, major tasks performed, required training, structure of the agent compensation, and competitive business strategy. These interviews will be conducted using the survey instrument that will be used for agents. Conducting an interview using the survey instrument will allow for an open ended conversation with the respondents. The interviews will help RMA better understand the information that will be provided by agents that will complete the survey.

We will sample up to 15 insured producers that will be selected for interviews. Interviews with insured producers will be conducted exclusively over the phone. The purpose of the interviews with insured producers is to gain a deeper understanding about the level of interaction between insurance agents and their policy holders and the level of services required by producers to make an informed insurance choice. Information collected from the interviews with insured producers will include general background information, the level of interaction between producers and their insurance agent(s), and major tasks performed by the agent(s) in selling and servicing Federal crop insurance. These interviews will be conducted using the survey instruments that will be used for producers. Conducting an interview using the survey instrument will allow for an open ended conversation with the respondents. The interviews will help RMA better understand the information that will be provided by producers that will complete the survey.

Survey of Insurance Agents

The purpose of the national survey of the insurance agents is to collect relevant cost data incurred by the insurance agents in selling and servicing Federal crop insurance policies. The survey will serve as an instrument collecting information on the levels of effort required to sell and service crop insurance policies as well as levels of effort necessary to sell and service other lines. Specifically, the survey will collect data on agency geographical area (location of policy holders), insurance plan type (initial application vs. renewal policy), policy size, policy management and support related activities, nature of interaction with a policy holder, types of crops covered by Federal crop insurance, and other factors. In addition, the survey will obtain information on the time agents spend on the tasks related to selling and servicing a policy and agents' essential out of pocket costs for support staff, travel, overhead, and other out-of-pocket expenses. We will use this information to evaluate the factors measurably contributing to the costs of Federal crop insurance delivery.

A representative sample of insurance agents across different regions will be selected for the survey from all insurance agents selling and servicing Federal crop insurance in 2011. Both paper and web-based surveys will be made available to the sampled insurance agents. Telephone follow-ups may also be conducted to increase the response rate and reduce missing or incomplete data collected from the survey. The information from the survey of the insurance agents will be used with other publicly available information to construct estimates of cost of delivery incurred by the insurance agents at both the national and regional levels.

Survey of Insured Producers

We will conduct a parallel survey of the insured producers to whom the sampled insurance agents sell Federal crop insurance. The survey will determine the level of services (e.g. number of insurance agent visits, educational services, and other services) provided by the insurance agents that are necessary for the producers to make an informed decision about Federal crop insurance. Data collected from the survey of insured producers will include general background information, composition of the Federal crop insurance policies purchased, information on the insurance agent(s) the insured producers purchased crop insurance from, and interactions between the insured producers and their insurance agent(s). A representative sample of insured producers across different regions will be selected based on a representative subsample of the insurance agents selected for the agent survey (i.e. 20 percent of the national sample of the insurance agents). Both paper-based and web-based surveys will be made available to the sampled insured producers. Telephone follow-ups may also be conducted to increase response rate and reduce missing or incomplete data collected from the survey. Data gathered from the survey of insured producers will serve as a consistency check to information gathered from the survey of insurance agents and will not be directly used to estimate the cost of delivery incurred by the insurance agents but will provide valuable information on the levels of services producers expect from agents.

Interview & Survey Data Usages (Economic, Statistical, and Econometric Analyses)

Based on the sampling data, we will perform statistical analyses of interest, such as the baseline trend analysis and econometric modeling, on the underlying factors that may significantly influence the economic cost of delivery incurred by the insurance agents. The econometric and statistical models will be designed to use the data that identifies differences in costs caused by various factors, including crop types, insurance plans, coverage level, and agency size.

We will develop statistical models, analyzing costs, using three different sources of data: 1) survey response data, 2) historical time series payment data available within RMA, and 3) macro variables available in the public domain. We will look at comparisons across factors and survey question themes and statistically identify key or “driver” survey items affecting costs of selling Federal crop insurance. These analyses will help us identify measurable relationships between various groups and cost components, and key factors contributing towards crop insurance costs.

Our analysis will provide an estimate of the historical costs of program delivery on a national, as well as regional basis. In addition, it will identify differences in costs caused by various factors, including crop type, insurance plans, coverage level, and agency size.

Frequency of Interviews and Surveys

Both the interviews with AIPs, agents, and producers and the national survey of insurance agents and insured producers will be conducted once. This is *not* an ongoing data collection; therefore, the collection requirements have not and will not change over time.

Confidentiality Clause & Data Availability

Information from individual interviews and surveys with stakeholders will be kept private, protecting the privacy of the responses to the extent permitted by law (without disclosure of the

identity of the AIP, insurance agent, or insured producer). Aggregate summaries and descriptive statistics (i.e., averages, modes, frequencies, etc.) of findings will be shared with organizations within USDA and interested parties and trade associations within the industry, as necessary, but no individual responses will be made available.

3. DESCRIBE WHETHER, AND TO WHAT EXTENT, THE COLLECTION OF INFORMATION INVOLVES THE USE OF AUTOMATED, ELECTRONIC, MECHANICAL, OR OTHER TECHNOLOGICAL COLLECTION TECHNIQUES OR OTHER FORMS OF INFORMATION TECHNOLOGY, E.G. PERMITTING ELECTRONIC SUBMISSION OF RESPONSES, AND THE BASIS FOR THE DECISION FOR ADOPTING THIS MEANS OF COLLECTION. ALSO DESCRIBE ANY CONSIDERATION OF USING INFORMATION TECHNOLOGY TO REDUCE BURDEN.

We will prepare in advance a list of interview questions for interviews with AIPs, agents, and producers that it will use as a guide during the interview process. As all the interviews are mostly of qualitative nature, the collections of the information from these interviews do not involve any use of automated or electronic information collection techniques. The burden hours from these interviews will be small due to the fact that no more than 45 interviews will be conducted.

We will conduct paper based and web-based surveys of insurance agents and insured producers. Agents will also have an option of faxing back their completed surveys. For respondents with email addresses, the link to the web-based survey will be sent to the respondents via email, and follow-up emails will be sent to those who have not responded after a certain waiting period. For respondents with no email address, we will mail paper-based surveys with the Web-based survey URL provided. The respondents will have an option to reply to the survey online or by returning the completed paper survey by mail. Follow-up mails and/or telephone calls may also be conducted to increase the response rate and retrieve any missing or incomplete data. In case of non-responses, we will conduct telephone follow-up calls where an operator will use the web-based questionnaire to complete the survey based on responses received from the sampled insurance agents or insured producers over the phone.

To the extent possible, we intend to maximize the rate of response by the sampled insurance agents and insured producers through Internet since it simplifies the compilation of the response data. Based on the data RMA possesses on the insurance agents, we expect to send the survey to approximately 40 percent of the sampled insurance agents solely via email. The percentage could change depending on the availability of email addresses among the sample of insurance agents.

The main portal for the online surveys is located at www.FCIPagent.Campos.com for agents and www.FCIPfarmer.Campos.com for producers. Respondents will be provided instructions on how to reach this website along with the survey questionnaire. The respondents will be required to enter a valid survey code and a unique user identification number (ID). The ID will

be printed either on the label of the questionnaire mailed to the respondents or included in the email. This will help prevent anyone other than a selected respondent accessing the survey web pages.

4. DESCRIBE EFFORTS TO IDENTIFY DUPLICATION. SHOW SPECIFICALLY WHY ANY SIMILAR INFORMATION ALREADY AVAILABLE CANNOT BE USED OR MODIFIED FOR USE FOR THE PURPOSE(S) DESCRIBED IN ITEM 2 ABOVE.

This is the first new study in this area. To our knowledge, a study of this kind has not been conducted in the past. Therefore, no duplicate information will be collected as a result of the interviews and surveys since no sources are available to collect this information that can be used or modified for the purposes described in Item 2 above.

5. IF THE COLLECTION OF INFORMATION IMPACTS SMALL BUSINESSES OR OTHER SMALL ENTITIES (ITEM 5 OF THE OMB FORM 83-1), DESCRIBE THE METHODS USED TO MINIMIZE BURDEN.

According to Instructions for Completing OMB Form 83-I, “a small entity “may be (1) a small business which is deemed to be one that is independently owned and operated and that is not dominant in its field of operation; (2) a small organization that is any not-for-profit enterprise that is independently owned and operated and is not dominant in its field; or (3) a small government jurisdiction which is a government of a city, county, town, township, school district, or special district with a population of less than 50,000.” The majority of agents and producers (or approximately 100 percent) are generally considered as a “small entity” according to the definition above. The burden hours for small entities would then be consistent with the burden hours that are provided in Question 12.

We have taken significant measures to minimize the overall burden for respondents. Specifically, we looked into finding a good balance between time required to complete the survey and the questions designed to collect certain agent cost and other data included in those surveys. In addition, in the pre-OMB interviews conducted with insurance agents and insured producers, we discussed and solicited their views on the preferred survey format, survey duration, and measures that may help boost the response rates in conducting the surveys of insurance agents and policyholders. Finally, we consulted various professional trade associations and individuals regarding the insurance agent survey. We also consulted with the external survey specialists at Campos regarding the insurance agent and insured producer surveys.

6. DESCRIBE THE CONSEQUENCE TO FEDERAL PROGRAM OR POLICY ACTIVITIES IF THE COLLECTION IS NOT CONDUCTED OR IS CONDUCTED LESS FREQUENTLY, AS WELL AS ANY TECHNICAL OR LEGAL OBSTACLES TO REDUCING BURDEN.

As discussed in our response to Question 1, the reasonableness of the A&O expense reimbursement paid to AIPs has been an issue of legislative interest by Congress, an audit target for program oversight bodies, and a primary focus of recent negotiations between the insurance companies and RMA. RMA provides the A&O payment on behalf of the policyholders to the insurance companies to cover their administrative and operating expenses incurred in selling and servicing the Federal crop insurance policies. The A&O subsidy is calculated as a fixed percentage of policy premiums. According to the 2009 GAO Report, A&O payments to AIPs nearly tripled between 2000 and 2009 primarily because the method used for calculating A&O payment considered the value of the crop rather than the actual costs for selling and servicing policies. GAO then recommended RMA to conduct a study of the costs associated with selling and servicing crop insurance policies so that RMA could appropriately align the A&O payments to the AIPs with the reasonable and necessary costs for AIPs to deliver the program.

The information collections proposed within represent a critical part of RMA's efforts to estimate the economic costs of delivering the Federal crop insurance program to American producers, particularly the economic costs incurred by insurance agents in selling and servicing the Federal crop insurance policies. If the information collections were not conducted, RMA will continue to lack an appropriate information base upon which RMA would be able to effectively evaluate the economy and efficiency of the Federal crop insurance program and make proper regulatory and programmatic changes as necessary.

7. EXPLAIN ANY SPECIAL CIRCUMSTANCES THAT WOULD CAUSE AN INFORMATION COLLECTION TO BE CONDUCTED IN A MANNER:

- **REQUIRING RESPONDENTS TO REPORT INFORMATION TO THE AGENCY MORE OFTEN THAN QUARTERLY;**
- **REQUIRING RESPONDENTS TO PREPARE A WRITTEN RESPONSE TO A COLLECTION OF INFORMATION IN FEWER THAN 30 DAYS AFTER RECEIPT OF IT;**
- **REQUIRING RESPONDENTS TO SUBMIT MORE THAN AN ORIGINAL AND TWO COPIES OF ANY DOCUMENT;**
- **REQUIRING RESPONDENTS TO RETAIN RECORDS, OTHER THAN HEALTH, MEDICAL, GOVERNMENT CONTRACT, GRANT-IN-AID, OR TAX RECORDS FOR MORE THAN 3 YEARS;**
- **IN CONNECTION WITH A STATISTICAL SURVEY, THAT IS NOT DESIGNED TO PRODUCE VALID AND RELIABLE RESULTS THAT CAN BE GENERALIZED TO THE UNIVERSE OF STUDY;**
- **REQUIRING THE USE OF A STATISTICAL DATA CLASSIFICATION THAT HAS NOT BEEN REVIEWED AND APPROVED BY OMB;**

- **THAT INCLUDES A PLEDGE OF CONFIDENTIALITY THAT IS NOT SUPPORTED BY AUTHORITY ESTABLISHED IN STATUTE OR REGULATION, THAT IS NOT SUPPORTED BY DISCLOSURE AND DATA SECURITY POLICIES THAT ARE CONSISTENT WITH THE PLEDGE, OR WHICH UNNECESSARILY IMPEDES SHARING OF DATA WITH OTHER AGENCIES FOR COMPATIBLE CONFIDENTIAL USE;**

OR

- **REQUIRING RESPONDENTS TO SUBMIT PROPRIETARY TRADE SECRET, OR OTHER CONFIDENTIAL INFORMATION UNLESS THE AGENCY CAN DEMONSTRATE THAT IT HAS INSTITUTED PROCEDURES TO PROTECT THE INFORMATION'S CONFIDENTIALITY TO THE EXTENT PERMITTED BY LAW.**

There are no special circumstances. The collection of information is conducted in a manner consistent with the guidelines in 5 CFR 1320.6.

- 8. IF APPLICABLE, PROVIDE A COPY AND IDENTIFY THE DATE AND PAGE NUMBER OF PUBLICATION IN THE FEDERAL REGISTER OF THE AGENCY'S NOTICE, REQUIRED BY 5 CFR 1320.8(d), SOLICITING COMMENTS ON THE INFORMATION COLLECTION PRIOR TO SUBMISSION TO OMB. SUMMARIZE PUBLIC COMMENTS RECEIVED IN RESPONSE TO THAT NOTICE AND DESCRIBE ACTIONS TAKEN BY THE AGENCY IN RESPONSE TO THESE COMMENTS.**

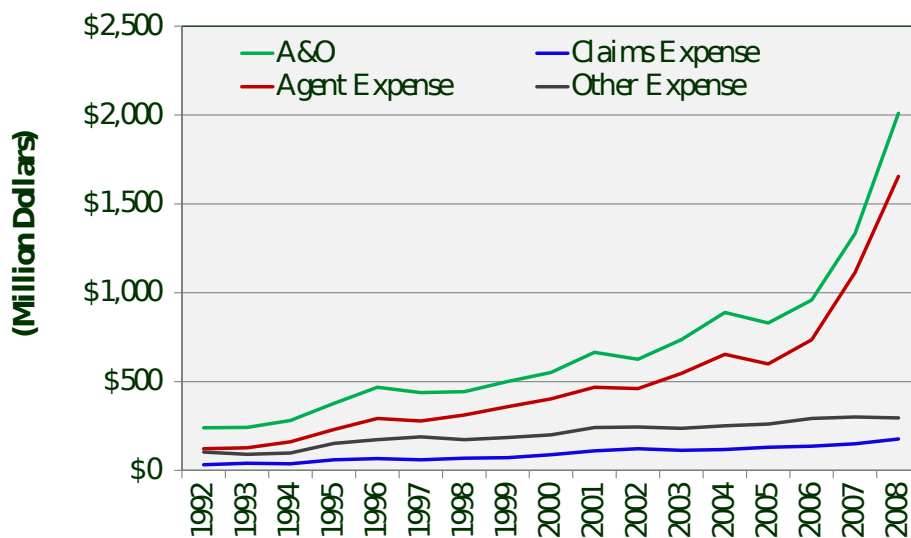
On Friday, July 6, 2012, in Vol. 77, No. 130, pages 39988 to 39990, the agency published the notice of information collection and request for comments in the Federal Register. A copy of the Federal Register publication is attached to the supporting statement.

Background: To implement the Federal crop insurance program, the USDA RMA partners with private insurance companies (known as AIPs). The AIPs sell and service the insurance policies and share a percentage of the risk of loss and the opportunity for gain associated with the policies. RMA pays the AIPs a percentage of the premiums on policies earning premium to cover the A&O expenses of selling and servicing these policies, subject to limits contained in the Standard Reinsurance Agreement (SRA) between the companies and RMA.

Between 2006 and 2008, A&O payments to AIPs more than doubled from about \$960 million to approximately \$2 billion, reflecting the rapid rise in commodity prices (see Figure 1). This occurred because the method used for calculating A&O payments considered the value of the crop rather than the actual costs for selling and servicing policies. The increase in the A&O payments occurred without a proportional increase in the number of policies earning premium, insured acres, or coverage levels purchased. With the rapid increase in government costs for program delivery, the adequacy or excessiveness of the A&O payment become a topic of

significant interest by Congress and for program oversight bodies. Further, compensation provided to agencies/agents consumed much of the increase in A&O payments. According to a recent industry study,³ agent compensation now accounts for over 70 percent of AIP expenditures for program delivery.

Figure 1: A&O Payments and AIP Expenditures, 1992 to 2008



The intensity of the debate regarding program delivery costs and A&O payments was elevated significantly during the 2008 Farm Bill discussions. As a result, the Food, Conservation, and Energy Act of 2008 included language that permitted RMA to renegotiate the SRA with AIPs effective for the 2011 reinsurance year and once every five year period thereafter. RMA and the AIPs subsequently negotiated a new SRA that included limits on the amount of A&O payment collectively paid to AIPs and on the amount of compensation that AIPs provide to crop insurance agents. The A&O payment limit establishes a maximum amount of A&O payment that will be collectively provided to AIPs of about \$1.3 billion annually.⁴ The limit on agent compensation is designed to prevent an AIP from spending all of its A&O payment solely on its agency/agent force. Instead, the AIP must retain some of the A&O payment to cover the costs of overhead, loss adjustment, and other related costs.

Even with the limit on A&O payments to AIPs imposed by the new SRA, considerable uncertainty about the necessary and reasonable costs of program delivery remains. RMA establishes policy terms and conditions, and premium rates, for Federal crop insurance policies. Thus, the Federal crop insurance policy offerings of the AIPs are homogeneous,⁵ which

³ “Federal Crop Insurance Program: Profitability and Effectiveness Analysis,” Grant Thornton, LLP. Prepared on behalf of National Crop Insurance Services, Inc., October 2, 2009.

⁴ There are certain exceptions to the A&O limit, including catastrophic (CAT) policies, new plans of insurance, and “snap-back” A&O payments in states for which the loss ratio exceeds 1.25 for the reinsurance year.

⁵ Individual AIPs may also offer non-reinsured supplemental policies to producers, which could differ from those offered by other AIPs.

significantly restricts the dimensions along which the AIPs are able to compete, i.e., AIPs are unable to compete on either product or price. This has the potential to dampen the effectiveness of normal market disciplines in assuring cost-effective program delivery. Various studies have been undertaken to measure program delivery costs for purposes of evaluating the adequacy of the A&O payment. However, these studies have typically approached the issue from an accounting perspective, with the assumption that AIP expenditures for delivery are, by definition, the costs of delivery. A potential flaw in this approach is that some large program expenses (such as agency/agent compensation) are based on program factors (such as premium volume) that are not necessarily related to underlying economic costs. With this study, RMA is seeking information regarding the reasonable and necessary economic costs for program delivery which can be used to better establish the level of A&O payments in future SRA negotiations that is appropriate for effective and efficient program delivery while safeguarding taxpayer interests.

On July 6, 2012 USDA published Docket ID No. FCIC-12-0007 “Notice of Request for Approval of a New Information Collection” in the Federal Register for comment by the public. The public was asked to comment on four specific questions:

1. Is the proposed collection of information necessary for the proper performance of the functions of the agency, and will the information have practical utility?
2. Is the agency’s estimate of the burden of the proposed collection of information including the validity of the methodology and assumptions used accurate?
3. How can KPMG enhance the quality, utility, and clarity of the information to be collected?
4. What are ways to minimize the burden of the collection of information on those who are to respond, including the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology?

Three parties submitted comments in response to the Federal Register notice: (1) a trade association for crop insurance agents; (2) a trade association for crop insurance companies; and (3) a crop insurance company. Many of the comments submitted by one of the parties focused on the contractor’s (KPMG’s) July 10, 2012 presentation to stakeholders on the objectives and intended methodology for the cost of delivery study (the contract with KPMG), rather than the specific questions posed in the Federal Register notice. This commenter included a copy of the presentation and referenced it repeatedly in the comments submitted in response to the Federal Register notice. The commenter had previously provided similar feedback on the presentation and intended study methodology, which has been considered by the contractor in developing the survey instruments and project plan. However, public comment was sought only on the four specific questions posed in the Federal Register notice. Therefore, we are only providing responses to those comments directly related to the questions contained in the Federal Register notice.

- 1. Is the proposed collection of information necessary for the proper performance of the functions of the agency, and will the information have practical utility?**

Comment: *If we were confident that the kind of information that would be collected under this notice would be probative in establishing agencies' reasonable costs – and we are not in part because there is insufficient information in the notice – then it would still seem to us that the time for collection of this information is well past, by at least two and possibly as many as four years, when such information might have informed the judgment of the Risk Management Agency in the negotiation of the 2010 SRA, the judgment of the Congress in the development and passage of the 2008 farm bill, and the judgment of the GAO in establishing the benchmark for the reduction in the A&O allowance rate that legislative and regulatory efforts have now achieved. Going forward, budget constraints would likely prevent an increase in A&O if the information collected pointed toward the appropriateness of an increase in order to approximate reasonable costs, while provisions contained in the House and Senate versions of the farm bill suggest Congress intends to prevent future cuts and even unwind some cuts that were previously imposed.*

Response: RMA respectfully disagrees with the submitter's contention that the appropriate window for the collection of information regarding program delivery costs has passed.

The Food, Conservation and Energy Act of 2008 (2008 Farm Bill) became law effective on June 18, 2008. Section 12017 of the 2008 Farm Bill provided RMA could renegotiate the SRA with the AIPs effective for the 2011 reinsurance year (RY11), and once during each period of five reinsurance years thereafter. One of the most contentious issues in SRA negotiations is that of compensation for the A&O expenses incurred by the companies for program delivery. Subsequent to the 2008 Farm Bill, in April of 2009 the Government Accountability Office (GAO) released GAO-09-445 "Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program" which evaluated the costs incurred by the insurance companies for program delivery. The GAO study made a number of recommendations regarding A&O payments, reproduced below as follows:

“To better ensure that the A&O allowances provided to the crop insurance industry are sufficient for program delivery, but not excessive, we recommend that the Secretary of Agriculture direct the Administrator of the Risk Management Agency to develop a new methodology for calculating the A&O allowance so that it is more closely aligned with expenses, in terms of dollars per policy, as was the allowance in place before 2006, when crop prices increased sharply. SRA renegotiations should achieve this goal. Once this alignment is completed, the Administrator should minimize annual fluctuations in A&O allowances that are unrelated to business expenses, while recognizing variations in delivery expenses across regions of the country.

To assist in maintaining the relationship between A&O allowances and reasonable business expenses, we further recommend that the Secretary of Agriculture direct the Administrator of the Risk Management Agency to require that companies annually report the commissions they paid to insurance agencies, by policy, to the Risk Management Agency. The agency should also conduct a study of the costs associated with selling and servicing crop insurance policies to establish a standard method for assessing agencies' reasonable costs in selling and servicing policies.

Finally, to accurately track the insurance companies' expenses for delivering crop insurance, we recommend that the Secretary of Agriculture direct the Administrator of the Risk Management Agency to clarify the current guidance on reporting these expenses and specify what expenses are permitted."

The GAO report recommended that RMA first negotiate a new SRA to more closely align payments to AIPs with the reasonable cost of program delivery, i.e., before the historic rise in commodity prices. The GAO report also recommended that RMA then conduct a study of program delivery costs to assure that A&O payments remained consistent with reasonable and necessary program delivery costs going forward. RMA agreed with all of the GAO recommendations, except for that to require the companies to report commissions because of administrative burden and duplication issues. In addition, practical considerations dictated that the study not be conducted until after the SRA was negotiated. Specifically, the legislative requirement that a new SRA be effective for RY11 (which would begin July 1, 2010) meant that the window between the release of the GAO report and the completion of SRA negotiations was only 14 months. In fact, the negotiations over a new SRA began in December of 2010, eight months after the release of the GAO report. Thus, timing simply precluded a study being conducted prior to negotiations for a new 2011 SRA. As a result the study is only now being undertaken consistent with the GAO recommendations.

The results and conclusions of this study could have a significant impact on the tenor and outcome of a negotiation for a new SRA effective for 2016 reinsurance year (which would begin July 1, 2015) as directed by the 2008 Farm Bill. As regards the submitter's interpretation of Congressional intent, we note that the submitter is referencing legislation which is not yet law and is subject to change, both by this Congress and by a future Congress. Negotiations over a new SRA would not begin in earnest until late 2014 or early 2015, some two-plus years from today. Given the rapidly evolving budget climate it is possible that a future Congress will have a different perspective regarding the appropriate level of A&O payments for crop insurance delivery. As such any attempt to assess the perspective of a future Congress towards a future SRA negotiation is a speculative exercise at this juncture.

Comment: Further divorcing the establishment of A&O from long-standing industry practice, contract negotiation, and service-based competition in favor of Washington attempting to second-guess reasonable costs of delivery through a set of questions posed in interviews or surveys would further upset a private sector delivery system that is proved effective and cost-efficient, duplicate the overarching goal of the GAO report and the SRA which has already been achieved, and run counter to the intent of Congress.

Response: As noted above, this study is being undertaken subsequent to the negotiations for a new RY11 SRA as recommended by GAO. As such, it is not a duplication of the overarching goal of the GAO report, but is rather a furtherance of that goal. The study will provide information that can be used to better establish the level of A&O payments in future SRA negotiations that is appropriate for effective and efficient program delivery while safeguarding taxpayer interests. Also, appeals to the intent of Congress at this juncture regarding a future SRA negotiation is a speculative exercise. Finally, as the Federal government is solely

responsible for compensating the delivery system for its A&O costs, it is wholly appropriate for the Federal government to have the best possible objective information regarding those costs.

Comment: As such, we do not believe that the proposed collection of information is necessary for the proper performance of the functions of the agency, nor would it likely have practical utility. If, however, the collection of information effort is to proceed, despite our concerns, we would urge that the specific questions to be posed in all interviews be published in the Federal Register and be subject to comment, and that the universe of those interviewed be confined to agency owners.

If the effort is worth doing, it is worth doing right. The questions need to be probative and appropriate in determining reasonable costs, and, as such, the questions must be posed only to those persons actually capable of answering them. The results of flawed interviews, either because the questions were not probative or the persons asked are not in the position to know the answer, would or at least should have no practical utility.

Response: KPMG and its subcontractor, Campos, have extensive experience with the design of survey instruments, the conduct of surveys, and ensuring a representative sample is obtained and maximum response rates are achieved. RMA is confident that the information collected and the resulting analysis will significantly improve our understanding of the reasonable and necessary costs of program delivery. We do not believe publishing the survey questions for review and comment in the Federal Register will provide any substantive benefit but will result in a significant delay in the study. In the process of developing the survey instrument, KPMG has obtained considerable input from RMA and the Federal crop insurance delivery system, including representatives from both AIP and agent interests. This input has resulted in a much improved survey instrument that we believe will provide credible data for analytical purposes. KPMG will also conduct a number of field interviews in the course of its information collection effort, which will be used to validate survey responses and uncover any potential systematic response biases.

Regarding the comment that the survey sample be restricted to agency owners, we first note that the survey instrument includes detailed questions targeted at agency owners (e.g., number of sub-agents employed, number of administrative staff). For many of the survey questions, however, it is immaterial whether the respondent is an agency owner, a sub-agent, or an independent agent, as the questions account for time and effort spent selling and servicing the policy. In addition, the survey does include questions regarding whether the survey respondent is an agency owner so that there will be opportunity to review responses by type of agent, i.e., agency owners, sub-agents, or independent agents.

Comment: We do not believe the collection of this information will result in practical utility, nor is it necessary for the proper functions of RMA. This collection of information is largely from the perspective of services provided by an agent, which is only one component of delivery. We submit that to properly assess the costs associated with selling and servicing a crop insurance policy, the total cost of delivery of the program should be considered.

Response: According to the data reported by the insurance companies, compensation provided to insurance agents accounts for well over 70 percent of the total cost of program delivery (see Figure 1). Further, remuneration to insurance agents is part of the AIPs costs that could have different economic and accounting costs. Thus, the study focuses primarily on evaluating the economic costs incurred by agents in selling and servicing Federal crop insurance policies. For other AIP cost centers (e.g., claims adjustment and overhead expenses) the difference between historical expenditures (accounting costs) and economic costs is not expected to be measurable. To evaluate these other AIP cost centers, the contractor will conduct extensive reviews of the expense information reported by AIPs to RMA and conduct interviews with up to 15 AIPs. Thus, the study will consider the total cost of delivery of the Federal crop insurance program.

Comment: *The notice asks whether the proposed collection of information is necessary for the proper performance of the functions of RMA, including whether the information will have practical utility. It is not clear how RMA will use the information they seek. For example, the upper limit on A&O introduced in the 2011 SRA negotiations was not based on the informational input that could be obtained from the study that contractor intends to carry out. Furthermore, since RMA has no direct responsibility for how companies use the A&O they receive to deliver the program to eligible producers, it is difficult to understand how the information collected is necessary for the proper performance of the functions of RMA. Indeed, (see p. 39989 in the notice, col. 2, the paragraph immediately under Interviews section), RMA admits that they currently do not understand the expenses AIPs incur in delivering the Federal crop insurance program. This raises the question of whether RMA plans on restructuring A&O depending on different factors such as geographical region, types of crop insurance sold, and number of insurance policies sold.*

Response: RMA has the responsibility to ensure that government payments to AIPs for delivery expenses are sufficient to achieve effective program delivery but are not excessive and provide efficient use of taxpayer funds. The purpose of the study is to identify and measure, on a national and regional basis, the current, reasonable, and necessary economic costs required for delivery of the Federal crop insurance program. RMA recognizes these costs *could* differ amongst regions due to various factors, such as differences in cropping mix, type of crop insurance sold, size of insurance policies, etc. Significant differences in delivery costs among individual policies could even exist within a region based on a number of factors, such as the type and size of the insurance policy. The study is designed to explore potential differences in delivery costs based on these factors. But neither RMA nor KPMG make any assumption regarding the magnitude, importance, etc. of these potential differences. The study will address that question. Under current legislation, RMA and the AIPs will likely negotiate a new SRA effective for the 2016 reinsurance year, as directed by the 2008 Farm Bill. RMA intends to use the study, and any other information it deems relevant, in determining whether to seek a restructuring of A&O payments to AIPs in the next negotiation of the SRA. Thus, the results and conclusions of this study could have a significant impact on the tenor and outcome of the next SRA negotiation.

2. Is the agency's estimate of the burden of the proposed collection of information including the validity of the methodology and assumptions used accurate?

Comment: *The estimated time for agent respondents to answer survey questions designed to determine reasonable costs of delivery is greatly underestimated if the proposed collection of information is to yield anything more than guesses. The number of interviews proposed with agents is very small considering the total number of agents and that agents are in the best position – the only position – to answer the question at the heart of the matter.*

Response: We have designed two surveys that we expect farmers and agents will have adequate time to complete. We believe that the time allocated for the surveys is sufficient and not underestimated for the survey data collection to yield good quality data. From the start of this project, surveys, not interviews, were planned as the primary vehicle of data collection..

Comment: *Contractor will interview AIPs, agent/agencies, and farmers to develop survey questions. Stakeholders should be provided the opportunity to review the resulting survey prior to sending it out to agents/agencies and farmers. RMA estimates that interviews with AIPs will take 2 hours per response, interviews with agents and farmers will take 1.5 hours per response, and survey of agents and farmers will take 0.5 hour per response. The estimate of 0.5 hour for survey response appears to be unrealistic considering the scope of questions to be asked (slide 29) and the overarching objective of measuring opportunity cost. Contractor states that approximately 12,400 insurance agents sold crop insurance in reinsurance year (RY) 2011 (slide 30). Although this number sounds reasonable, population size needs to be determined more precisely. Contractor states that they want to sample approximately 20% of agents (slide 30). They will sample 2,627 out of 12,400 agents (21% sampling ratio). Of the agents sampled, RMA estimates that 30% will respond (788 agents). The number of estimated respondents divided by the size of population of agents equals 6%. RMA needs to disclose the targeted statistical precision level (margin of error) with the sampling ratio of 21% and response ratio of 30% with respect to the sample. Against the possibility of ineligible sample points or responses, the sampling ratio may need to be adjusted upward.*

Response: The response related to the reviews of the resulting survey prior to sending it out to agents and farmers has been previously addressed. As for the time necessary to spend on each survey, we have developed user-friendly survey questionnaires with clear, concise, inoffensive, and easy to respond to questions with the intent for both agents and farmers to take approximately 30 minutes to complete. To reduce the burden and to increase the response rate, We have narrowed down the scope of the questions and do not anticipate that additional time will be necessary for these surveys to be completed by agents/farmers.

For the purposes of these surveys, we aimed at a sampling precision of plus or minus 10 percent at a 95 percent confidence level. Using generally accepted statistical sampling principles and methodology, we estimated the necessary sample sizes needed to make objective and statistically valid projections based on the samples' findings. We have discussed with industry and survey specialists that the expected response rate of 30.0 percent for each of our surveys of insurance agents and insured producers is reasonable. The agent and policyholder populations include

13,559 unique agents by region⁶ and 158,423 policyholders. To ensure the ability to generalize about the agent population, we estimated the stratified random samples for agents and policyholders at 766 and 153, respectively. With the expected response rate of 30 percent, we inflated the required samples to 2,563 agents and 513 policyholders. Therefore, about 19 percent or one fifth of all agents will be sampled. whereas the number of sampled policyholders is less than 1 percent. Since the focus of these surveys is centered primarily on the agents and not farmers, a smaller fraction of farmers will be asked to complete the survey. RMA samples farmers only to improve its understanding of the services provided by agents while selling and servicing Federal Crop insurance. Finally, to achieve the target response rate, we have implemented a number of steps.⁷ In addition, we will identify any additional actions that may help achieve a high response rate. We will continuously monitor and evaluate the response rates on a bi-weekly basis to ensure timely follow-ups and achievement of the target response rates. Therefore, we believe that the statistical sampling design will provide results that are statistically valid, objective, and defensible. We calculated the required sample size(s) based on assumptions of the variability inherent in the population and the anticipated non-response rate and therefore, upward adjustments will not be necessary.

Comment: Contractor should decide on appropriate strata in the agent/agencies' survey. Within each stratum, contractor should strive to achieve the targeted sampling ratio so that the resulting sample can be representative of the population. Contractor plans to stratify the sample into six regions: Midwest, Plains, South, West, Mountain, and Northeast (slide 30). They should also stratify in terms of size of agent/agency (such as very small, small, and large according to reasonable criteria) and type of agent/agencies (such as captive or independent). As a result, contractor should have 36 strata ($36 = 6 \times 3 \times 2$) in agents' survey. Contractor may consider systematic sampling over random sampling for certain strata or even taking a census if a certain stratum's sample size is inadequate. Furthermore, contractor needs to carry out a thorough non-response bias analysis. This would include performing statistical tests for the differences between respondents' and non-respondents' characteristics such as region, type and size.

Response: RMA has decided on the appropriate strata for the agent/agencies' survey. The strata are determined by the six regions as well as the size of the agency (small, medium, and large) resulting in 18 strata ($6 \times 3 = 18$). While it would be beneficial to stratify by type of agent as well, RMA does not collect this type of agent data. Also, a non-response bias analysis will be conducted after the administration and collection of the surveys, including performing various parametric and non-parametric statistical tests (as needed) for the differences between respondents and non-respondents' characteristics.

Comment: Contractor states that the response rate is expected to be low (slide 33). Against this possibility, they ask for assistance from AIPs in the form of an awareness campaign, and rely on advance notification e-mail and reminder e-mail. NCIS recommends that a respondent within each agency must be identified through a telephone call. A reminder postcard or e-mail could

⁶ The 2011 RMA agent population records include 13,040 unique agents selling Federal crop insurance in six regions. And 519 agents or 4 percent of the overall agent population sell insurance in more than one region.

⁷ See detailed discussion about these steps and other measures undertaken by RMA to improve the response rate in Section B of this document.

also be useful. Follow up telephone calls to non-respondents may be needed. Contractor must have a well-thought out plan in handling survey data collection process to maximize the number of responses (see Cates et al. 2005 for an example).

Response: RMA agrees that the response rate is expected to be low. RMA intends to implement all of the above suggested and other methods to improve on the agent and farmer response rates. More detailed discussion on ways to achieve a target response rate, reduce non-response rates, and conduct non-response bias analysis and adjustments is provided Section B of this document.

3. How can KPMG enhance the quality, utility, and clarity of the information to be collected?

Comment: *We urge you to narrow the scope of the interviews to agency owners, publish interview questions in the Federal Register and open them up for comment to get the best possible set of questions, and clearly elaborate in the Federal Register what benchmarks will be used to at least attempt to estimate the value of intangible services peculiar to the profession. In preparing a list of questions to be posed, we would recommend that the questions be narrowly tailored to evoke answers that are directly related to the threshold issue of reasonable costs to the agency for sales and servicing.*

Response: While RMA acknowledges that extensive and intensive interviews with agencies would be one way of collecting the information required for estimating reasonable and necessary costs, it would also be cost prohibitive and this approach would be unable to achieve the appropriate coverage needed across regions and types of crops and policies. RMA believes that survey responses will be the most effective way to acquire the information necessary to determine reasonable and necessary costs, when it is combined with other information that is publicly available. Our approach not only requires the survey data but also combines it with other data which CIPA may not be aware of.

In addition, RMA has designed the survey to capture a full range of services that the Agents provide to producers. RMA's primary focus and scope of the survey and interviews is on the agents. It has reached out and circulated the draft agent surveys to a few agents who have volunteered to review it and provide some feedback. In addition, RMA has done substantial research and conducted some interviews to narrowly tailor the questions that evoke straightforward, succinct, factual, accurate, and clear answers by agents to measure reasonable costs of the selling and servicing of Federal crop insurance to producers.

With respect to the need to survey farmers, RMA believes that interviewing farmers will provide valuable information. While agents are the only group surveyed who know their costs of selling and servicing insurance, farmers are expected to have good understanding of the services they need to be provided to them to make crop insurance decisions. Therefore, asking policyholders about what they need and whether these services are currently being adequately provided can provide useful information to RMA in managing its program.

Comment: *We feel it is important that KPMG be engaged through a full year of the business*

cycle in order to adequately understand and reflect on the seasonal challenges of selling and servicing the program from all perspectives.

Response: The Government can adjust the cost study contract's schedule, if necessary, to ensure that adequate time is available to conduct the Information Collection. A significant portion of the information collection for the study will be conducted via a survey of crop insurance agents. The survey period will last for approximately two and a half months and will likely overlap with the spring sales period, which accounts for the bulk of the Federal crop insurance policies that are sold. Further, the field interviews of insurance companies will largely occur during the survey period. As a result, the AIPs will have the opportunity to share their perspective on the seasonal challenges of selling and servicing the program during the period in which they conduct most of their sales. In addition, the field interviews of companies will occur as the AIPs are wrapping up the very active 2012 claims season. Thus, the timing should be opportune for the AIPs to share fresh information and perspective on the costs of loss adjustment and claims processing.

Comment: *There is a significant chance that response rates will be lower than expected if the survey is conducted in October as proposed, due to the heavy workload for agents and farmers during harvest season and because of the large workload anticipated as a result of the drought.*

We would also like to note that if a significant amount of data is not able to be obtained through the survey process that KPMG recognizes this and does not come to any conclusions based on insignificant data obtained in the survey responses.

Response: Due to various delays, the survey will not be administered in October as was originally intended. The new date of the survey distribution is likely to be in January. RMA strongly believes that having two and a half months to return survey responses represents adequate time for both the agents and farmers to respond. In addition, to improve its response rates, RMA intends to mail follow up surveys and do additional phone calls to farmers (if necessary).

Comment: *Contractor should provide reviews at regular intervals throughout the course of the study to report on project status and findings with industry representatives. Preliminary versions of reports prepared by contractor should be provided to industry for comments. The industry representatives should be invited to attend any contractor presentations or discussions with RMA, USDA, Congress or Congressional staff members, or other groups. Contractor should hold a series of meetings with the entire industry to discuss the final results of the study. Finally, agency and industry representatives should have an opportunity to provide written responses as part of the final report.*

An arbitrary timeline should not be established for completion of the study or for presentation of preliminary results. The study should be released only after it has been completed to the satisfaction of contractor, peer reviewers, industry stakeholders, and RMA.

Response: RMA believes this comment is outside the scope of the four specific questions posed

in the Federal Register Notice; rather, it is more related to the methodology and scope of the Delivery Cost Study contract between the Government and KPMG, for which the commenter has previously provided feedback. However, the contract requires KPMG to conduct a presentation for industry stakeholders following completion of its preliminary study report, for the purpose of obtaining industry feedback. Thus, industry stakeholders will have an opportunity to provide input and feedback on the study findings, prior to completion of the final report.

4. What are ways to minimize the burden of the collection of information on those who are to respond, including the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology?

Comment: While we appreciate efforts to minimize the burden on respondents, in this case we believe that the less time spent on the questions and the more impersonal the venue in which they are posed, the less likely the information gathered will paint an accurate picture of the true costs of delivery. This is in part but not solely due to the intangibles involved.

Response: RMA has solicited feedback from a number of agents that have reviewed the initial draft of the survey. It has adjusted the survey to reflect the comments and valuable contribution provided by agents so as to collect the proper content and request information in a way that an agent would be able to comply. By making numerous edits to the Survey questions, RMA has strived to achieve a fine balance between adequate timing not to overburden the agents but at the same time obtaining high quality adequate data that will provide information that can be used to accurately measure the costs of Federal crop insurance delivery and provide results that are statistically valid, objective, defensible, and measurable.

Comment: Electronic collection of information will likely be the most effective and efficient form of survey. Additionally, as noted above, the proposed collection timeframe of fall 2012 will likely be more burdensome for agents and farmers due to harvest.

Response: First, RMA agrees that electronic collection of information is the most effective way to collect the survey. Therefore, RMA anticipates to email the survey to all farmers/agents having email addresses available and provide information for the online survey to those who receive a mailed copy of the survey. We have also adjusted the timeframe of the survey to take place in the first quarter of the year, which should be a better period for the respondents. We believe that having two and a half months to respond to the survey provides adequate time for agents and farmers to respond to survey. In addition, to receive a sufficient response rate, RMA intends to mail follow up surveys and do phone calls to the farmers.

5. Other comments received

- A. *While we appreciate the effort at conducting a study based on Economic costs rather than Accounting costs, we feel that Economic costs are significantly more difficult to accurately define and assess. Opportunity costs are a significant portion of the Economic costs and thus, specific attention must be given to properly accounting for these costs in this study.*
- B. *Slide 10 of the presentation given on July 10, 2012 by KPMG, does not include the fact that the Farmer's Share of Premium, while collected by the AIP, is not retained by the AIP. The AIP submits that premium to RMA where it is retained until the Underwriting Gains/Losses are set.*
- C. *In response to Slide 22 of the presentation, additional factors that would potentially affect LAE and Overhead Expenses incurred by AIPs include: cost of capital and interest (which has increased due to timing shifts in the Underwriting Gain and A&O payments in recent years), private reinsurance costs, the makeup of an AIP's book including types of coverage written, and the processing and claims systems utilized by an AIP. Additional factors that might potentially affect the cost of delivery incurred by insurance agents/agencies include: the age of the book of business, agent's length of time in the business, whether the agent processes electronically, and the cost of capital invested by the agent over time.*
- D. *In response to slide 25 of the presentation, we would note that RMA data used should be actual data, not estimated figures that are submitted in the Plan of Operations. Additionally, when performing a benchmark analysis of operational costs of MPCCI insurers compared to the costs of insurers in other P&C lines of business we note that as participants in the Federal MPCCI program, AIPs have to go through many more program changes than other lines of insurance. These changes are dictated by RMA and often involve action on the part of AIPs in a limited timeframe. Many times there are significant direct and indirect costs associated with these changes including communications, training and education, systems, etc. Additionally, traditional insurance companies (offering a non-Federal product) have the opportunity to make economic/cost benefit decisions on how to underwrite their business and handle claims. These other lines do not have requirements imposed on underwriting, nor do they adjust claims under constantly changing rules and regulations. Lastly, they have the ability to make economic and business consideration decisions during catastrophic events. All of these directions serve to align the costs of the product and the operation and delivery aspects.*
- E. *In response to slide 26 of the presentation, we would like to make the following points:*
 - a. *Commission Ratio: The significant changes that were a result of the 2011 SRA to A&O and agent compensation should be fully considered here. Additionally, we feel that benchmarking crop insurance against other lines is not a direct comparison as*

crop insurance agents have significantly more reporting duties and communication points with a producer throughout the year.

- b. Loss Ratio: Loss ratio can be an effective measure of risk control and management IF comparing amongst AIPs, however, consideration must be given to the geographic location of an AIP's book of business. Additionally, comparing MPCI loss ratios to non-MPCI loss ratios is not a direct comparison due to the extreme catastrophic nature of weather risks associated with MPCI.*

Response: The July 10, 2012, industry presentation was given as an opportunity for the industry to learn about the study as well as to obtain some feedback. As this presentation is not directly related to the information collection portion of the delivery cost study, RMA believes that these comments are outside the scope of the four specific questions posed in the Federal Register Notice.

Comment: *The study should avoid the use of arbitrary assumptions as this may bias the outcome. For example, the contractors' presentation included the assumption that expenses are equal to A&O reimbursements, though this assumption was subsequently withdrawn. If the study is to consider the possibility that the current level of spending on A&O is not the correct level of spending, it should be open to the possibility that current expenditures are insufficient either nationally or regionally. Current levels of expenditure may not support a level of service that will allow the program to achieve its goals. If the study is to consider the possibility that the current level of expenditure on program delivery is not optimal, it should not prejudge the nature of the discrepancy it is seeking to measure. Contractor should not attempt to evaluate the propriety of various expenses, as that would substitute contractor's judgment for the judgment of tax accountants and the IRS in determining reasonable and necessary business expenses. The scope of the study should evaluate at least an entire year's activity to account for peak workload issues and take year-to-year variability in the workload into account.*

Response: KPMG is an independent contractor, and it has no expectations about the outcome of the study. In its presentation, Slide 10 contains a basic diagram about how the Federal crop insurance program works and shows various relationships among industry players. The slide states that the "The Insurance company's operating expenses are expected to be covered by the A&O allowance." This statement does not imply that the contractor has made any judgments about the propriety of costs and is a mere summarization of some descriptive information that was provided by RMA on the history of the program. It should not be interpreted to mean that the contractor has formed any views about the propriety of expenses.

Comment: *According to information provided by RMA, there are 496,386 farmers with policies earning premium in 2011. RMA's Summary of Business indicates that the number of policies earning premium was 1,151,452 in 2011 crop year (a farmer can have more than one policy, or more than one farmer can be on a single policy). Contractor states that of the insured farmers, 20% of those associated with sampled agents will be sampled (slide 31). Dividing the number of insured farmers (496,386) by the number of agents (12,400) gives 40 insured farmers per agent. It appears that contractor will initially survey agents and then carry out a follow up survey of the*

farmers that are served by the agents who responded to the initial survey. Based on the estimate of responding agents, that yields a sub-population of approximately 31,545 insured farmers ($31,545 = 40 \times 788$). Of those 31,545 insured farmers, 20% will be sampled, which corresponds to 6,309 farmers. However, RMA estimates that 525 insured farmers will be sampled, and of those sampled, 158 insured farmers will respond (30% response rate with respect to the sample). The number of farmers that are expected to respond to the survey is less than 0.032% of the insured farmers population ($0.0318\% = 158 / 496,386 \times 100$) and 0.5% of farmers that are potentially served by the agents who responded to the initial survey ($0.5\% = 158 / 31,545 \times 100$). As it stands, RMA's estimate of sample size for the survey of farmers is insufficient. A representative sample of farmers is essential for the accuracy of information to be collected. Contractor states that surveying of insured farmers will be done to determine the level of services (e.g. number of insurance agent visits, educational services, and other services, telephone calls, mailing) necessary for farmers to make an informed decision. Contractor also states that data gathered from the survey of insured farmers will serve as a consistency check and will not be directly used to estimate the cost of delivery incurred by insurance agent (slide 29). It is not clear what criteria will be used to determine the inconsistency between responses of agents and farmers and what course of action will be taken if an inconsistency is found.

NCIS staff and industry representatives question the accuracy of the commissions estimates presented in slide 13, where only about \$900 million for commissions in RY 2011 are shown. Commissions are expected to be higher, perhaps close to 100% of A&O subsidy. This information needs to be reviewed and corrected, with the revised information provided to interested parties.

Response: KPMG provided the July 10, 2012 industry presentation as an opportunity for the industry to learn about the study as well as to obtain some feedback. In the presentation, KPMG provided a disclaimer and acknowledged that all numbers shown in the industry presentation were considered preliminary. Since the presentation, the commission amount in RY11 has been updated to \$ 1.262 million.

Comment: Contractor states that they will estimate insurance agent/agency costs by combining various sources of data (slide 27). Internal Revenue Service's (IRS) statement of income (SOI) data for insurance agents and brokerages will form the baseline percentage estimate of itemized expenses incurred by crop insurance agents. It is not clear whether the IRS data distinguishes between P&C agency expenses and life insurance and other market segments. In addition, the usefulness of this data can be questioned due to the variety of entity structures under which agencies are organized and how compensation to owners is handled. The year of information being used will also be important since agent compensation for the crop insurance program has been capped starting with 2011. Certain costs incurred by agents, such as travel and health care, have increased rapidly, and a comparison to costs in earlier years may not be reliable. Agents will be surveyed to report the variations in percentage of expense over income relative to the SOI baseline estimates. Based on the latter information, Contractor proposes to adjust the baseline percentages to arrive at the applicable expense percentages for crop insurance industry (slide 28) but does not explain how this to be accomplished. Contractor will also compare the preceding estimates with the "Insurance Agents Data by State" and RMA's Agent

Commission/Compensation Data by State (slide 27). Contractor mentions wage data for insurance sales agents by state from Bureau of Labor Statistics (BLS) (slide 27) but does not explain how they will use this data. This may be relevant since agents can be paid via wages, commissions, or a combination of the two. Contractor also did not provide information on the statistical basis for their adjustments. It seems as if contractor plans to do some of sort of benchmarking analysis that does not appear to be based on any formal economic or econometric model.

Response: We believe this comment pertains to the industry presentation and is outside the scope of the four specific questions posed in the Federal Register Notice.

Comment: *The Federal Crop Insurance program is a dynamic, complex, and evolving program. Since enactment of the Federal Crop Insurance Act of 1980, it has become the centerpiece of the economic safety net for agricultural crops, protecting over \$113 billion worth of liability in 2011 alone (U.S. Department of Agriculture, 2012a). Indeed, government spending on crop insurance is projected to exceed all spending on farm commodity programs during fiscal years 2011 to 2020 (Congressional Budget Office, 2012). Some crop insurance products provide yield protection at the field, farm, and county levels and others provide revenue protection at the field, farm and county levels. During the life of 2008 Farm Bill, crop insurance interacted with other farm programs such as the ACRE (a state level insurance guarantee program) and SURE (the permanent disaster aid program) programs administered through Farm Services Agency (FSA) (U.S. Department of Agriculture, 2012a). For example, farmers were obligated to obtain crop insurance or protection under the non-insured assistance (NAP) program in order to qualify for the SURE program. Senate and House versions of the 2012 Farm Bill repeal direct payments, ACRE and SURE programs and introduce various shallow loss programs (some are free farm programs to be delivered through FSA, while others are similar to crop insurance programs and are to be delivered by AIPs), thus, farmer's choices are anticipated to be become even more complex and difficult. Agents may be on the front-lines of the delivery of the 2012 Farm Bill's supplementary revenue proposals and the study needs to consider the additional training required, the time involved in working with farmers and the increased errors and omissions cost to agents.*

Response: We believe this comment pertains to the industry presentation and is outside the scope of the four specific questions posed in the Federal Register Notice.

Comment: *The study should examine the impact of commodity prices on the cost of delivery of the program. While it is evident that commodity prices have a direct impact on the premiums collected, prices may also influence cost. This certainly is true at the AIP level since higher commodity prices result in higher liability exposure and, therefore, greater costs for meeting RMA's capital requirements. The study should examine whether higher commodity prices also affect agents' costs of doing business.*

Response: We believe this comment pertains to the industry presentation and is outside the scope of the four specific questions posed in the Federal Register Notice.

Comment: *The current SRA limits the amount of A&O payable to AIPs pursuant to section III(a)(2), and also limits the amount of compensation payable to agents in section III(a)(4). Subsequent to execution of the SRA, RMA decided that payments to agents for company required processing costs would be a permissible exception to the compensation limitations, and it deemed the maximum level of additional compensation to be equal to 5% of A&O. This is set forth in MGR-10-011.1. Since contractor will be expected to study costs of delivery, contractor should be expected also to determine more specifically whether 5% of A&O is an appropriate number for the exception made by RMA to the compensation limitations. Contractor should be expected to determine if RMA's definition of processing (11(a) of MGR-10-011.1) is appropriate.*

Response: We believe this comment pertains to the industry presentation and is outside the scope of the four specific questions posed in the Federal Register Notice.

DESCRIBE EFFORTS TO CONSULT WITH PERSONS OUTSIDE THE AGENCY TO OBTAIN THEIR VIEWS ON THE AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, THE CLARITY OF INSTRUCTIONS AND RECORDKEEPING, DISCLOSURE, OR REPORTING FORMAT (IF ANY), AND ON THE DATA ELEMENTS TO BE RECORDED, DISCLOSED, OR REPORTED.

In the pre-OMB interviews conducted with insurance agents and insured producers, we discussed and solicited their views on the preferred survey format, survey duration, and measures that may help boost the response rates in conducting the surveys of insurance agents and insured producers. In addition, we consulted with several professional Insurance Agent trade associations regarding the insurance agent survey:

We also consulted with the external survey specialists at Campos, Inc. (Campos) regarding the insurance agent and insured producer surveys. The interviews and consultations have become a crucial component in fine-tuning the Survey questions soliciting responses to help accurately identify the costs of selling and servicing Federal crop insurance and at the same time without overburdening survey recipients.

9. EXPLAIN ANY DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS, OTHER THAN REMUNERATION OF CONTRACTORS OR GRANTEES.

No payments or gifts are provided to respondents.

10. DESCRIBE ANY ASSURANCE OF CONFIDENTIALITY PROVIDED TO RESPONDENTS AND THE BASIS FOR THE ASSURANCE IN STATUTE, REGULATION, OR AGENCY POLICY.

All questionnaires include a statement that individual reports are kept private. U.S. Code Title 18, Section 1905 and U.S. Code Title 7, Section 2276 provide for the confidentiality of reported

information. All employees of RMA, the contractor, and the subcontractor must read the regulations and sign a statement of compliance. The responses received from the interviewees and survey participants will be strictly kept private and anonymous by ensuring the appropriate procedures are in place to limit access to the data and effectively safeguard the data collected.

Additionally, RMA and its contractor/subcontractor comply with OMB Implementation Guidance, "Implementation Guidance for Title V of the E-Government Act, Confidential Information Protection and Statistical Efficiency Act of 2002 (CIPSEA)," (Public Law 107-347). CIPSEA supports RMA's pledge of privacy to all respondents and facilitates the agency's efforts to reduce burden by supporting statistical activities of collaborative agencies through designation of RMA agents, subject to the limitations and penalties described in CIPSEA.

- 11. PROVIDE ADDITIONAL JUSTIFICATION FOR ANY QUESTIONS OF A SENSITIVE NATURE, SUCH AS SEXUAL BEHAVIOR AND ATTITUDES, RELIGIOUS BELIEFS, AND OTHER MATTERS THAT ARE COMMONLY CONSIDERED PRIVATE. THIS JUSTIFICATION SHOULD INCLUDE THE REASONS WHY THE AGENCY CONSIDERS THE QUESTIONS NECESSARY, THE SPECIFIC USES TO BE MADE OF THE INFORMATION, THE EXPLANATION TO BE GIVEN TO PERSONS FROM WHOM THE INFORMATION IS REQUESTED, AND ANY STEPS TO BE TAKEN TO OBTAIN THEIR CONSENT.**

Questions of a sensitive nature are not found in this information collection.

- 12. PROVIDE ESTIMATES OF THE HOUR BURDEN OF THE COLLECTION OF INFORMATION.**

THE STATEMENT SHOULD:

- INDICATE THE NUMBER OF RESPONDENTS, FREQUENCY OF RESPONSE, ANNUAL HOUR BURDEN, AND AN EXPLANATION OF HOW THE BURDEN WAS ESTIMATED. IF THIS REQUEST FOR APPROVAL COVERS MORE THAN ONE FORM, PROVIDE SEPARATE HOUR BURDEN ESTIMATES FOR EACH FORM AND AGGREGATE THE HOUR BURDENS IN ITEM 13 OF OMB FORM 83-I.**
- PROVIDE ESTIMATES TO RESPONDENTS FOR THE HOUR BURDENS FOR COLLECTIONS OF INFORMATION, IDENTIFYING AND USING APPROPRIATE WAGE RATE CATEGORIES.**

Cost to the public of completing the questionnaires is assumed to be comparable to the hourly rate of those requesting the data. Reporting time of 631 hours for agents, 96 hours for producers, and 15 hours for AIPs is multiplied by \$30.28, \$9.62, and \$57.91 per hour (estimated rate for

agents, producers, and AIPs)⁸ for a total cost to the public of \$17,137.

⁸ Source: <http://www.bls.gov> mean hourly wage rates by occupation as of May 2011 for 41-3021 Insurance Sales Agents, 45-2092 Farm workers and Laborers, Crop, Nursery, and Greenhouse, and 11-3031 Financial Managers, accessed September 18, 2012.

Table 1: Burden Hours

Survey	Sample Size	Response				Non-Response				Total Burden Hours
		Resp. Rate	Resp. Count	Min/ Resp.	Burden Hours	Non-Resp Count	Freq. x Count	Min/ Non Resp.	Burden Hours	
Voluntary Surveys										
Agent Survey										
First Email/Mailing	2,563	10%	256	30	128	2,307	231	2	8	136
Second Email/Mailing	2,307	30%	692	30	346	1,615	484	2	16	362
Follow Up with Phone Calls	50	40%	20	30	10	30	12	2	0	10
Total Agent Contacts	4,920		968		484	3,951			24	508
Farmer Survey										
First Mailing	513	10%	51	30	26	462	46	2	2	27
Second Email/Mailing	462	30%	139	30	69	323	97	2	3	72
Follow Up with Phone Calls	10	40%	4	30	2	6	2	2	0	2
Total Producer Contacts	985		194		97	791			6	102
Interviews										
Interviews										
Agent Interviews	20	40%	8	60	8	12	5	2	0.16	8
Producer Interviews	20	40%	8	60	8	12	5	2	0.16	8
AIP Interviews	15	100%	15	60	15	0	0	0	0.00	15
Total Interviews	55		31		31	24			0	31
Total	5,959		1,193		612	4,766			29	641

Table 2: Burden Calculation Summary

Total Burden Calculation	Hours	Rate	Total
Agents	517	\$30.28	\$15,641
Farmers	110	\$9.62	\$1,057
AIPs	15	\$57.91	\$869
	641		\$17,567

13. **PROVIDE AN ESTIMATE OF THE TOTAL ANNUAL COST BURDEN TO RESPONDENTS OR RECORDKEEPERS RESULTING FROM THE COLLECTION OF INFORMATION. (DO NOT INCLUDE THE COST OF ANY HOUR BURDEN SHOWN IN ITEMS 12 AND 14). THE COST ESTIMATE SHOULD BE SPLIT INTO TWO COMPONENTS: (a) A TOTAL CAPITAL AND START-UP COST COMPONENT (ANNUALIZED OVER ITS EXPECTED USEFUL LIFE); AND (b) A TOTAL OPERATION AND MAINTENANCE AND PURCHASE OF SERVICES COMPONENT.**

No capital/start-up or ongoing operation/maintenance costs associated with this information collection.

14. **PROVIDE ESTIMATES OF ANNUALIZED COST TO THE FEDERAL GOVERNMENT. ALSO, PROVIDE A DESCRIPTION OF THE METHOD USED TO ESTIMATE COST AND ANY OTHER EXPENSE THAT WOULD NOT HAVE BEEN INCURRED WITHOUT THIS COLLECTION OF INFORMATION.**

The collection of information has been contracted out as part of RMA’s Delivery Cost Study contract with KPMG. The total contract price for the Study was \$452,378. Please see Table 3 for a breakdown of the costs specific to the collection of information.

Table 3: Total Professional Fees and Expenses Related to Survey Administration

Item	Hours/ Units	Blended Rate/ Price Per Unit	Est. Cost
Survey Planning			
Senior Personnel	12	\$484.78	\$5,817
Project Management	32	\$136.77	\$4,377
Senior Associate	64	\$113.25	\$7,248
Associate	32	\$150.00	\$4,800
Sub-Total	140		\$22,242
Survey Execution			
Professional Fees	364	\$164.07	\$59,723
Direct mail printing/production	7,500	\$0.76	\$5,707
Postage	7,500	\$0.65	\$4,875
BRM account fees	841	\$1.21	\$1,018
Sub-Total			\$71,323
TOTAL			\$93,565

15. **EXPLAIN THE REASON FOR ANY PROGRAM CHANGES OR ADJUSTMENTS REPORTED IN ITEMS 13 OR 14 OF THE OMB FORM 83-1.**

No program changes or adjustments reported in Items 13 and/or 14 of the OMB Form 83-1 took

place as a result of these survey activities. The information collections discussed within are new information collections, and no burden amounts have been approved previously.

16. FOR COLLECTIONS OF INFORMATION WHOSE RESULTS WILL BE PUBLISHED, OUTLINE PLANS FOR TABULATION, AND PUBLICATION.

Surveys of insurance agents and insured producers are expected to take place from the beginning of January to the middle of March 2013. Analysis of the survey data will occur in March and April of 2013, after completion of which the preliminary research report will be completed in mid-May 2013. The final research report is to be released in mid-July 2013 after going through internal reviews and incorporating comments from various parties on the preliminary research report.

17. IF SEEKING APPROVAL TO NOT DISPLAY THE EXPIRATION DATE FOR OMB APPROVAL OF THE INFORMATION COLLECTION, EXPLAIN THE REASONS THAT DISPLAY WOULD BE INAPPROPRIATE.

The agency plans to display the expiration date for OMB approval of the information collection on all instruments.

18. EXPLAIN EACH EXCEPTION TO THE CERTIFICATION STATEMENT IDENTIFIED IN ITEM 19, "CERTIFICATION FOR PAPERWORK REDUCTION ACT."

The agency is able to certify compliance with all provisions under Item 19 of OMB Form 83-I.