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Agriculture



Federal Crop
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Corporation

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APPROVED PROCEDURES FOR SUBMISSION OF INDEX-BASED WEATHER PLANS OF INSURANCE

**Effective upon approval until
obsolete**

**RISK MANAGEMENT AGENCY
KANSAS CITY, MO 64133**

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SUBJECT: Provides the procedures for the submission of Index-based Weather Plans of Insurance.	OPI: FCIC Board of Directors
	Approved: /s/ Robert Johansson Chairman, FCIC Board of Directors

REASON FOR ISSUANCE

This handbook is issued to provide approved standards for the submission of Index-based Weather Plans of Insurance. All Index-based Weather Plans of Insurance submitted to the FCIC Board of Directors for approval must be submitted in accordance with this handbook.

APPROVED PROCEDURE FOR SUBMISSION OF INDEX-BASED WEATHER PLANS OF INSURANCE

CONTROL CHART

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FILING INSTRUCTIONS

This handbook is new and does not replace any existing handbook. This handbook is effective upon approval and until obsolete.

FCIC BOARD OF DIRECTORS APPROVED PROCEDURE FOR SUBMISSION OF INDEX-BASED WEATHER PLANS OF INSURANCE

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PART 1 GENERAL INFORMATION

1 Basis, Purpose, and Applicability

These procedures establish guidelines and responsibilities of FCIC and the applicant for the submission of Index-based Weather Plans of Insurance to the FCIC Board of Directors (Board) for approval as authorized under section 523(i) of the Act.

2 Confidentiality

Refer to 7 C.F.R. §400.702 for confidentiality requirements. In addition to the requirements in 7 C.F.R. §400.702, the applicant must state, within the IBWP submission, if the name of the IBWP name may be used in Board documents, including but not limited to, the agenda, minutes, and Board memoranda. The applicant cannot use false names to mislead the public regarding the nature of the IBWP. If permission is not given to use the name of the IBWP, the IBWP will simply be referred to as a “Section 523(i) IBWP.”

3 Timing and Format

Refer to 7 C.F.R. §400.703 for timing and format requirements.

4-10 (Reserved)

PART 2 SUBMISSION STANDARDS

11 Contents of a Complete Index-based Weather Plan of Insurance

A complete Index-based Weather Plan of Insurance must contain the following material, as applicable, in the order given.

- (1) The applicant's name (entity name), tax identification number, D-U-N-S number, address or primary business location, phone number, and e-mail address.
- (2) A notation that it is an Index-based Weather Plan of Insurance submitted in accordance with FCIC procedures handbook 17050 - Approved Procedures for Submission of Index-Based Weather Plans of Insurance.
- (3) A summary of the qualifications of the applicant, including:
 - (a) A list of the policies or plans of insurance the submitter has underwritten and administered that are comparable to the Index-based Weather Plan of Insurance, a description of these policies, and for each year the policies were sold the number of policies sold, total premium, liability and the loss ratio (comparable policies may include index-based policies that are not reinsured by FCIC);
 - (b) The most recent credit rating score of the submitter provided by AM Best credit rating bureau that reflects a credit rating of at least A- or above. If an AM Best credit rating is below A- a full explanation of the reasons for such rating and any corrective actions that have been taken to remediate the issue must be provided; and
 - (c) For each state for which approval from FCIC is requested, the applicant must provide a letter from the state, stating the submitter has:
 - (i) Authority and approval from the state to sell the product, including how much liability or the number of Index-based Weather policies that the submitter can write in the state; and
 - (ii) Sufficient assets or reinsurance to satisfy the underwriting obligations for the Index-based Weather Plan of Insurance, including the value of assets or reinsurance dedicated to the Index-based Weather Plan of Insurance.
- (4) A statement of whether the applicant is requesting:
 - (a) Risk subsidy;
 - (b) A&O subsidy; or
 - (c) Both risk and A&O subsidy.

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (5) If risk subsidy is requested, an explanation of the amount of risk subsidy requested, which must be similar to comparable policies or plans of insurance reinsured by FCIC, except that the risk subsidy shall not exceed 60 percent of the total premium, and a detailed outline of the proposed method for determining the amount of risk subsidy calculated using one of the following methods:
 - (a) A percentage of premium;
 - (b) A percentage of expected loss determined pursuant to a reasonable actuarial methodology; or
 - (c) A fixed dollar amount per acre.
- (6) If A&O subsidy is requested, an explanation of the amount of A&O subsidy requested and a breakdown of the method and factors used to determine the Index-based Weather Plan of Insurance's A&O subsidy rate being requested. The submitter must include a statement that no portion of the A&O subsidy will be used as a subsidy for premiums or provided to the policyholder as an incentive to purchase a policy or for any other reason.
- (7) The proposed agricultural commodities to be insured, including types, varieties, and practices covered by the policy.
- (8) The crop or insurance year and reinsurance year in which the Index-based Weather Plan of Insurance is proposed to be available for purchase by producers.
- (9) The sales closing date, if applicable, or if not applicable, the earliest date the applicant expects to release the product to the public.
- (10) A list of counties and states the submission is proposed to be offered;
- (11) Any known or anticipated future expansion plans.
- (12) Identification, including names, addresses, telephone numbers, and e-mail addresses of the person(s) responsible for addressing questions regarding the policy, underwriting rules, loss adjustment procedures, rate and price methodologies, data processing and record-keeping requirements, and any other questions that may arise in implementing or administering the program, if it is approved.
- (13) A statement of whether the submitter wants the Index-based Weather Plan of Insurance to remain confidential.
- (14) Benefits of the plan, including, as applicable, a summary that includes:
 - (a) Detailed description of the coverage provided by the Index-based Weather Plan of Insurance and its applicability to all producers, including targeted producers;

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (b) How the Index-based Weather Plan of Insurance offers coverage or other benefits not currently available from existing public or private programs;
 - (c) How the Index-based Weather Plan of Insurance provides producers of underserved specialty crops and livestock commodities coverage; and
 - (d) How the Index-based Weather Plan of Insurance meets public policy goals and objectives consistent with the Act and other laws.
- (15) The policy, including all applicable policy provisions, that is clearly written in plain language in accordance with the Plain Writing Act of 2010 (5 U.S.C. § 301) such that producers will be able to understand the coverage being offered. The policy language permits actuaries to form a clear understanding of the payment contingencies for which rates will be set. The policy language does not encourage an excessive number of disputes or legal actions because of misinterpretations. Include a list of any additional coverage that may be elected by the insured in conjunction with the Index-based Weather Plan of Insurance such as applicable endorsements (include a description of the coverage and how such coverage may be obtained).
- (16) The amount of commodity (acres, head, board feet, etc.) and the value of each agricultural commodity proposed to be covered in each proposed county and state;
- (17) A reasonable estimate of expected number of potential buyers, liability and premium for each proposed county and state, total expected liability and premium by crop year based on the detailed assessment of producer interest, including a description of the number of producers involved in the development of the product, their level of participation, their type of participation, how many producers have provided data to assist the submitter in the development of the product, and a comparison with other similar products, including differences between the Index-based Weather Plan of Insurance and the similar products that may make participation different;
- (18) If available, insurance experience for each year and in each county and state the policy has been previously offered for sale including an evaluation of the policy's performance and, if data are available, a comparison with other similar insurance policies reinsured under the Act;
- (19) Market research studies; "market research" is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making, and that must include:

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (a) Focus group results (both positive and negative reactions) where a discussion is facilitated amongst a group of stakeholders in order to gain insight into their perceptions, opinions, beliefs, and attitudes towards a product, which must include the number of focus group sessions held, where they were held, when they were held, the number of attendees at each session, the attendees affiliation (producer, agent or other), and specific feedback from the attendees regarding levels of coverage the product should include to cover anticipated risks or perils encountered, the range of costs the producer is willing to pay, what coverages the producers are specifically looking for and an assessment of whether that coverage can be provided at the price the producers are willing to pay, what shortfall or gap in risk protection the product may address, tolerance of risk, perceptions of other similar products, policy features producers may desire, and quality issues;
 - (b) Other evidence the proposed Index-based Weather Plan of Insurance will be positively received by producers, agents, lending institutions, and other interested parties, including correspondence from producers, agents, grower organizations, or other stakeholders expressing the need for a certain risk management strategy, desired coverage for perils faced, and willingness to provide critical information for developing a product;
 - (c) An assessment of factors that could negatively or adversely affect the market and responses from a reasonable representative cross-section of producers or significant market segment to be affected by the policy or plan of insurance; and
 - (d) A consultation report must be provided that includes a summary and analysis of discussions with groups representing producers of those agricultural commodities in all major producing areas for commodities to be served or potentially impacted, either directly or indirectly, and the expected impact of the Index-based Weather Plan of Insurance on the general marketing and production of the crop from both a regional and national perspective including evidence that the Index-based Weather Plan of Insurance will not create adverse market distortions;
- (20) A marketability assessment from the applicant AIP who is part of the applicant and from at least one other AIP. If a marketability assessment is not provided by a separate AIP who is not part of the applicant, the applicant must provide information regarding the names of the persons and AIPs contacted and the basis for their refusal to provide the marketability assessment. The marketability assessment will include:
- (a) An assessment of whether producers will buy the Index-based Weather Plan of Insurance;
 - (b) An assessment of whether AIPs and their agents will want to sell and service the Index-based Weather Plan of Insurance;
 - (c) An assessment of the risks associated with the Index-based Weather Plan of Insurance and its likely effect under the SRA;

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (d) Estimated computer system impacts and costs;
 - (e) Estimated administrative and training requirement and costs;
 - (f) An analysis of the complexity of the product; and
 - (g) What, if any, efficiency will be gained or potential effects on the workload of AIPs or others participating in the program.
- (21) Information related to the underwriting, including as applicable:
- (a) Relevant dates;
 - (b) Rules for determining insurance eligibility, including all producer reporting requirements; and
 - (c) Step-by-step examples of the data and calculations needed to establish the insurance guarantee (liability) and premium per acre or other unit of measure, including worksheets that provide the calculations in sufficient detail and in the same order as presented in the policy to allow verification that the premiums charged for the coverage are consistent with policy provisions.
- (22) Information related to loss adjustment, including, as applicable:
- (a) A detailed description of the causes of loss covered by the policy or plan of insurance and any causes of loss excluded;
 - (b) Loss determination methods and data sources used for determining losses based on the index; and
 - (c) Step-by-step examples of calculations used to determine indemnity payment for all probable situations where a partial or total loss may occur, and loss adjustment procedures that are necessary to establish the amounts of coverage and loss.
- (23) Information related to rates of premium, including, as applicable:
- (a) A detailed description of the premium rating methodology proposed to be used and the basis for selection of the rating methodology;
 - (b) A list of all assumptions made in the premium rating methodology and the basis for these assumptions;
 - (c) A detailed description of the rating methodology, including:
 - (i) All supporting documentation, including how expenses, profit, and overhead are calculated and included in the rate;

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (ii) All mathematical formulas and equations;
 - (iii) Data and data sources used in determining rates and a detailed assessment of the data and how it supports the proposed rates;
 - (iv) An explanation of how the rates account for each of the risks covered by the policy; and
 - (v) An explanation of how the loss triggers are applicable to the policy and how the rates are actuarially appropriate for each type of loss trigger available under the policy;
- (d) An example of a rate calculation for each type of loss trigger available under the policy;
- (e) A discussion of the applicant's objective evaluation of the accuracy and adequacy of the data used to establish rates and determine losses, the short and long term availability of the data, and how the data will be obtained (if the data source is confidential or proprietary explain the cost of obtaining the data); and
- (f) An analysis of the results of simulations or modeling showing the performance of proposed rates for all types of loss triggers available under the policy, based on one or more of the following (such simulations must use all years of experience available to the applicant and must reflect both partial losses and total losses).
- (i) A simulation that shows liability, premium, indemnity, and loss ratios for the proposed insurance product based on the probability distributions used to develop the rates and establish loss triggers, as applicable, and the impact of inappropriate assumptions.
 - (ii) Any other comparable simulation that provides results indicating both aggregate and individual performance of the Index-based Weather Plan of Insurance including expected liability, premium, indemnity, and loss ratios for the proposed insurance product, under various scenarios depicting good and poor actuarial experience.
- (24) The proposed user fees and the submitter will charge other AIPs to sell the Index-based Weather Plan of Insurance established in accordance with paragraph 34.
- (25) A statement from the submitter that, if the Index-based Weather Plan of Insurance is approved, the submitter is solely responsible for the maintenance and quality assurance of any computer systems software or databases needed for the implementation and delivery of the product.

11 Contents of a Complete Index-based Weather Plan of Insurance (Continued)

- (26) A statement from the submitter that, if the Index-based Weather Plan of Insurance is approved, the submitter will report sales, acreage and claim data, and any other data FCIC determines to be appropriate to evaluate the sales and performance of the product or the financial status of the AIP.
- (27) Executed (signed) certification statements in accordance with the following:
- (a) “{Applicant’s Name} hereby claim that the basis and amounts set forth in this document are correct;” and
 - (b) “{Applicant Name} understands that, in addition to criminal fines and imprisonment, the submission of false or fraudulent statements or claims may result in civil and administrative sanctions.”
- (28) A statement of whether the submitter wants the Index-based Weather Plan of Insurance to remain confidential.

12 Presentation to the Board

Refer to 7 C.F.R. §400.707 for information on presenting Index-based Weather Plans of Insurance to the Board.

13-20 (Reserved)

PART 3 REVIEW AND APPROVAL

21 Review

If the Board determines the Index-based Weather Plan of Insurance to be complete and sends to expert review:

- (1) The reviewers will each provide their individual assessment of whether the Index-based Weather Plan of Insurance:
 - (a) Protects the interests of agricultural producers and taxpayers;
 - (b) Is actuarially appropriate;
 - (c) Follows recognized insurance principles;
 - (d) Does not contain excessive risks;
 - (e) Follows sound, reasonable, and appropriate underwriting principles;
 - (f) Contains a marketing plan that reasonably demonstrates the product would be or is viable and marketable; and
 - (g) Meets any other criteria the Board may deem necessary;
- (2) RMA will provide assessment of whether the Index-based Weather Plan of Insurance:
 - (a) Meets the criteria listed in subparagraph 21 (1)(a) through (g);
 - (b) Does not increase or shift risk to any other FCIC reinsured policy;
 - (c) Will provide a new kind of coverage for specialty crops and livestock commodities that previously had no available crop insurance, or has demonstrated a low level of participation under existing coverage;
 - (d) Will not have a significant adverse impact on the crop insurance delivery system;
 - (e) Has been approved for sale by each State the submitter intends to sell the product (RMA will contact the State insurance commissions to verify approval);
 - (f) Contains requested amounts of risk subsidy, and A&O subsidies that are reasonable and appropriate for the type of coverage provided by the policy;
 - (g) Was submitted by an AIP with:
 - (i) Adequate experience underwriting and administering policies or plans of insurance that are comparable to the proposed policy or plan of insurance;

21 Review (Continued)

- (ii) Sufficient assets or reinsurance to satisfy the underwriting obligations for the Index-based Weather Plan of Insurance. RMA will verify the submitter meets the financial requirements contained in 7 C.F.R., Part 400, Subpart L – Reinsurance Agreement – Standards for Approval; Regulations for the 1997 and Subsequent Reinsurance Years;
 - (iii) A sufficient insurance credit rating from an appropriate credit rating bureau; and
 - (iv) Applicable authority and approval from each state in which the AIP intends to sell the insurance product;
 - (h) Does not provide coverage substantially similar to privately available hail insurance.
- (3) In addition to 7 C.F.R. § 400.706(m) the Board may disapprove an Index-based Weather Plan of Insurance if it determines:
- (a) The interests of producers and taxpayers are not protected, including but not limited to:
 - (i) The Index-based Weather Plan of Insurance does not provide adequate coverage or treats producers disparately;
 - (ii) The Index-based Weather Plan of Insurance will not provide a new kind of coverage that is likely to be viable and marketable;
 - (iii) Coverage will not provide a new kind of coverage for specialty crops or livestock commodities that previously had no available crop insurance, or have demonstrated a low level of participation under existing coverage;
 - (iv) The Index-based Weather Plan of Insurance may create adverse market distortions or adversely impact other crops or agricultural commodities if marketed;
 - (v) The Index-based Weather Plan of Insurance will have a significant adverse impact on the crop insurance delivery system;
 - (vi) The Index-based Weather Plan of Insurance will have an adverse impact on program integrity; or
 - (vii) The Index-based Weather plan of insurance has not been approved for sale in the proposed states;
 - (b) The premium rates are not actuarially appropriate;

21 Review (Continued)

- (c) The Index-based Weather Plan of Insurance does not conform to sound insurance and underwriting principles;
- (d) The risks associated with the Index-based Weather Plan of Insurance are excessive or it increases or shifts risk to an FCIC reinsured policy;
- (e) The Index-based Weather Plan of Insurance or the applicant does not meet the requirements of the Act; or
- (f) The Index-based Weather Plan of Insurance will provide coverage substantially similar to privately available hail insurance.

22 Prioritization

Refer to §400.706(d)(4) for approval prioritization for Index-based Weather Plans of Insurance.

23-30 (Reserved)

PART 4 APPROVED INDEX-BASED WEATHER PLANS OF INSURANCE

31 Applicant Roles and Responsibilities

- (1) After an Index-based Weather Plan of Insurance is approved by the Board, an agreement between the applicant and FCIC must be completed that specifies the responsibilities of each with respect to the implementation, delivery and maintenance of the Index-based Weather Plan of Insurance; and the required timeframes for submission of any information and documentation needed to administer the approved Index-based Weather Plan of Insurance.
- (2) In addition to 7 C.F.R. § 400.709(a) the applicant is responsible for the following.
 - (a) Maintenance and quality assurance of any computer systems software or databases needed for the implementation and delivery of the product.
 - (b) Reporting sales, acreage and claim data, and any other data the Corporation determines to be appropriate to evaluate the sales and performance of the product in accordance with FCIC procedures.
 - (c) Complying with FCIC procedures to ensure the Index-based Weather Plan of Insurance does not have a significant adverse impact on the crop insurance delivery system, the best interest of producers is protected, and program integrity is preserved.
 - (d) Informing FCIC if state approval for the Index-based Weather Plan of Insurance has been withdrawn.
 - (e) Submitting the information required, in the format required, by FCIC to provide applicable risk and A&O subsidy.
- (3) Any changes, both non-significant and significant, must be submitted to FCIC in accordance with this handbook no later than 180 days prior to the earliest contract change date for the commodity in all counties or states in which the policy or plan of insurance is sold. Significant changes must be submitted to the Board for review in accordance with 7 C.F.R. part 400, subpart V and these procedure and will be considered a new Index-based Weather Plan of Insurance.

32 FCIC Roles and Responsibilities

- (1) In addition to 7 C.F.R. § 400.709(b) FCIC is responsible for the following.
 - (a) Approving other AIPs who seek to sell the policy or plan of insurance.
 - (b) If requested and approved, providing risk subsidy or A&O subsidy, in accordance with FCIC procedures.

32 FCIC Roles and Responsibilities (Continued)

- (2) If at any time prior to the cancellation date, FCIC discovers there is a mistake, error, or flaw in the policy, plan of insurance, related materials, rates of premium, or any other reason for withdrawal of approval, FCIC will deny A&O, if applicable, and risk subsidy for such policy or plan of insurance. If approval is withdrawn, a written notice will be provided on RMA's website at www.rma.usda.gov.
- (3) At any time after approval, the Board may review the Index-based Weather Plan of Insurance and request additional information to determine whether the Index-based Weather Plan of Insurance complies with statutory or regulatory changes or court orders, is still actuarially appropriate, protect program integrity and the interests of producers, and is still approved to be sold in the applicable state(s). The Board will notify the applicant of any problem or issue that may arise and allow the applicant an opportunity to make any needed change. The Board may withdraw approval for an Index-based Weather Plan of Insurance if:
 - (a) The applicant fails to perform the responsibilities stated under this paragraph;
 - (b) The applicant does not timely and satisfactorily provide materials or resolve any issue to the Board's satisfaction so that necessary changes can be made prior to the earliest contract change date;
 - (c) The Index-based Weather Plan of Insurance is not sufficiently marketable according to the applicant's estimate or fails to perform sufficiently as determined by the Board;
 - (d) The interest of producers or tax-payers is not protected or the continuation of the program raises questions or issues of program integrity; or
 - (e) State approval for the Index-based Weather Plan of Insurance is withdrawn in states previously approved.

33 Availability for Sale by other AIPs

An Index-based Weather Plan of Insurance approved by the Board will be made available for sale by other AIPs under the same terms and conditions provided to the submitter, in accordance with this paragraph.

- (1) AIPs that want to sell an Index-based Weather Plan of Insurance approved by the Board must submit a formal request to FCIC by sending the following information to the Deputy Administrator of Product Management at DeputyAdministrator@rma.usda.gov.
 - (a) Name and address of the AIP.
 - (b) A statement requesting to sell an FCIC approved Index-based Weather Plan of Insurance (specify the name of the plan).
 - (c) A user fee agreement between the AIP and the submitter.

33 Availability for Sale by other AIPs (Continued)

- (d) The information required under subparagraph 11 (3).
- (2) If the Board determines the AIP submitted the required information and to the Board's satisfaction meets the obligations outlined in subparagraph 21 (2)(g), the Board will provide written notification authorizing the AIP to sell the Index-based Weather Plan of Insurance.
- (3) If at any time the Board determines the obligations of the AIP are not being met, the Board may revoke the right to sell the Index-based Weather Plan of Insurance by providing written notification.

34 User Fees

- (1) Requests for approval of the user fee must be accompanied by written documentation to support the amount requested, which may only cover direct costs to maintain the plan of insurance.
- (2) The Board will approve the amount of user fee that is payable to the applicant by the AIP unless the Board determines that the user fee charged unnecessarily inhibits the use of the policy or plan of insurance by AIPs.
- (3) A user fee unnecessarily inhibits the use of a policy or plan of insurance if it is so high that AIPs will not sell the policy.
- (4) It is the sole responsibility of the applicant to collect such fees from an AIP and any indebtedness for such fees must be resolved by the applicant and AIP.
- (5) Every two years after approval of a user fee, or if the applicant has made a significant change to the approved Index-based Weather Plan of Insurance, applicants must submit documentation to the Board for review in determining if the user fee should be revised.
- (6) The Board may review the amount of the user fee at any time at its sole discretion.

Acronyms and Abbreviations

The following table provides the acronyms and abbreviations used in this handbook.

Approved Acronym/Abbreviation	Term
A&O	Administrative and Operating
AIP	Approved Insurance Provider
C.F.R.	Code of Federal Regulations
FCIC	Federal Crop Insurance Corporation
OGC	Office of the General Counsel
RMA	Risk Management Agency
USDA	United States Department of Agriculture

Definitions

The definitions from subpart V apply to these procedures unless otherwise specified in this exhibit. In addition to the definitions in subpart V:

Complete means an Index-based Weather Plan of Insurance determined by RMA and the Board to contain all required documentation in accordance with paragraph 11.

Marketable means a determination by the Board that a sufficient number of producers will purchase the Index-based Weather Plan of Insurance to justify subsidies. This determination must be based on credible information provided by the applicant.

Sufficient Assets include cash and other liquid assets such as stocks and bonds that can easily be converted to currency, that in aggregate have a monetary value greater than or equal to the expected amount of liability for a crop year.

Sufficient Quality is a determination made by RMA and the Board that the material presented is clearly written in plain language in accordance with the Plain Writing Act of 2010 (5 U.S.C. 301), unambiguous, and is supported by detailed analysis and data so that expert reviewers, RMA and the Board can understand, comprehend and make calculations, draw substantiated conclusions or results to determine whether the index-based weather plan of insurance meets the standards required for approval.