PRIVATE PRODUCT SUBMISSIONS

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Risk Management Agency
The Federal Crop Insurance Act

• Section 508(h) – General submission guidelines and approval criteria for policies and materials to the Board

• Section 522(b) – Reimbursement, Advance payment for Concept Proposals and Maintenance; results in a 508(h) submission

• Section 523(d) – Insurance companies propose coverage with reduced premium rates
What is a 508(h) Submission?

• Developed by private persons or entities
  • Policies/provisions of policies and rates of premium
  • Modifications or endorsements to existing plans
  • Viable & marketable policy
  • Coverage in significantly improved form

• Owned and maintained by developer
  • Changes to approved plan made by developer
  • Developer responsible any error, mistake or flaw

• If approved, can be reimbursed for R&D costs
What is a Concept Proposal?

- Developed by private persons or entities

- An idea for a 508(h) submission based on need, marketability, demand and impact on producers and delivery system

- Not fully formed or vetted, but must show potential for reasonable development

- Ultimately submitted as a 508(h) submission
What is a 523(d) Submission

- “to determine whether approved insurance providers (AIP’s) will compete to market policies or plans of insurance with reduced rates of premium. . .”

- While maintaining the financial soundness of AIP’s and;

- Maintaining the integrity of the Federal crop insurance program.
Approval Criteria – 508(h) and Concept Proposals

• 508(h)(3) Submission Approval Criteria
  • Provides new kind of coverage likely to be viable/marketable
  • Coverage for new/underserved crop; or addresses program flaw/problem
  • Actuarially appropriate rates, terms, etc.
  • Sound insurance principles, viable & marketable
  • Interest of producers adequately protected, no significant adverse impact on delivery system

• Concept Proposals
  • Authority under statute, new coverage, or addresses flaw or problem, underserved area or crop
  • Viable, marketable & consistent with 508(h) submission
  • Proposed budget/timetable reasonable
Approval Criteria – 523(d)

• 523(d) Submission Approval Criteria
  • Protects interests of producers within the pilot area
  • Premium rates are actuarially appropriate
  • Size of proposed pilot is adequate
  • Does not unfairly discriminate among producers
  • If the proposed pilot were available nationally, it would;
    • not have a significant adverse impact on the crop insurance delivery system
    • not harm program integrity
    • be actuarially appropriate
    • not place an additional financial burden on the Federal government.
  • proposal meets “other requirements of this title determined appropriate by the Board”
Approval Criteria – 523(d)

• Other factors considered by the Board:
  • Is the potential premium rate reduction significant?
    • At least 10%

• Is the basis for the reduction controlled by the grower or any outside third party?
  • Intrinsic v. Extrinsic

• Is there are reasonable and efficient process for independent verification that the producer qualifies for the reduction?
Approval Criteria – 523(d)

- Other factors considered by the Board:
  - Is the proposed reduction actuarially appropriate?
  - Are the data supporting the reduction credible? (Amount and quality of data)
    - Are data sufficient to provide a credible measurement of the appropriate reduction?
    - Are the data reliable? (Independent Source)
  - Is the analysis of the data sound?
    - Would other experts reach similar results?
  - Is there a way to collect additional loss data so that the reduction may be evaluated/adjusted?
    - Is there a post-implementation independent strategic plan to review the results of the reduction and evaluate its performance?
Approval Criteria – 523(d)

- Other factors considered by the Board:
  - Is the proposed reduction significantly different from other discounts currently available or is it already accounted for in the current premium rates?
    - If not, the currently-available reductions should be applied
  - Is the burden to the crop insurance delivery system reasonable?
    - Compliance;
    - IT System Modifications;
    - Data Reporting Requirements;
    - Complexity of Premium Rates
Yield-Base Rate Adjustment

Yield-Based Rate Adjustment
Corn, Kossuth County, IA
Example

- Corn; Adair County, IA; Basic Unit; APH 170 Bu/Acre; 75% Coverage

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Revenue Premium</td>
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<td>Subsidized Yield Premium</td>
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<td>20% discount</td>
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<td>Expected Revenue</td>
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Guidance for Submitters

- The Federal Crop Insurance Act-Section 508(h)


- Board Procedures - Submit Concept Proposal

- Board Procedures – Reimbursement Reasonableness

- RMA Website: [http://www.rma.usda.gov/fcic/privatesector.html](http://www.rma.usda.gov/fcic/privatesector.html)
Timeline

- Products submitted first five business days of each calendar quarter (Jan, Apr, Jul & Oct)

- 120 days for approval
  - Expert, OGC and RMA reviews done simultaneously
  - All reviews go to Board for determination

- Within 90 days, Board must inform applicant of intent to disapprove
  - Submitter may ask for a time delay to address issues

- Concept Proposals follow similar timeline
Reimbursement for Development

• For approved 508(h) submissions –
  • Research and development costs reimbursed
  • Maintenance costs reimbursed for 4 years following R&D reimbursement
  • After maintenance period - submitter may charge AIP a fee for maintenance costs – or turn product over to RMA

• No reimbursement for 523(d) submissions