

## **Guidance for Updating the SRA Appendix IV Review Matrix**

This document establishes the guidance that will be generally followed to update the Standard Reinsurance Agreement (SRA) Appendix IV Review Matrix when new plans of insurance and endorsements are introduced. The guidance reflects the rationale and criteria used to construct the Review Matrix as published in informational memorandum COM-17-003.

The Review Matrix will be updated as needed to reflect the introduction of new plans of insurance and endorsements, or if the Appendix IV review requirements are changed. It is expected that most new insurance products (policies and endorsements) will readily be placed into existing categories of the Review Matrix, e.g., an extension of the Actual Production History plan of insurance to a new crop. Thus, updates will probably be relatively infrequent occurrences. F

Any questions regarding application of the review and inspection requirements for new or existing insurance products, this guidance, or the Review Matrix, should be directed to Kent Lanclos, Director – Business Analytics Division, by phone 202-205-3933 or by email [kent.lanclos@rma.usda.gov](mailto:kent.lanclos@rma.usda.gov).

### **QUALITY CONTROL REVIEWS**

Per SRA Appendix IV, section III(b), approved insurance providers (AIPs) are responsible for conducting reviews of eligible crop insurance contracts (ECICs) as described below in order to ensure the effectiveness of the company's internal controls and assure that program integrity is maintained.

**Data Mining Reviews:** RMA uses data mining to detect ECICs for which the experience is anomalous relative to some peer group. *Any ECIC or endorsement is potentially subject to a Data Mining Review if individual loss adjustment is required to determine the amount of the loss.* ECICs and endorsements based on index or area insurance concepts (e.g., Rainfall Index, Area Risk Protection) are, in general, not subject to Data Mining Reviews because the loss experience of all similarly situated producers is the same, i.e., there are no anomalies to detect. Similarly, endorsements or ECICs for which the indemnity is a function of the indemnity of an underlying ECIC (e.g., Cottonseed Pilot) are also, in general, not subject to Data Mining Review.<sup>1</sup>

**Individual Policy Reviews:** An Individual Policy Review, as described in Appendix IV, section III(b)(2), is a review of any ECIC or endorsement specifically assigned and denoted as such by RMA. The trigger for an Individual Policy Review is the specific notification by RMA to an AIP to

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<sup>1</sup> For both area/index plans and endorsements such as the Cottonseed Pilot, the guidance does not preclude the use of data mining. There may be specific issues that arise in the future that are amenable to a data mining approach, and the guidance allows for that possibility.

conduct a review and denoted as such in email, letter, or similar correspondence providing the instruction. *Any ECIC or endorsement is potentially subject to an Individual Policy Review.*

**Conflict of Interest Reviews:** SRA Appendix IV, section III(b)(3)(A), requires AIPs to conduct Conflict of Interest (COI) reviews. However, in lieu of the COI criteria stated in Appendix IV, RMA provides each AIP with the specific list of ECICs for which a Conflict of Interest review is required if a claim is filed. If an ECIC is not on the list provided by RMA, the AIP is not required to conduct a COI review of the policy even if it would otherwise satisfy the Appendix IV criteria. *A Conflict of Interest Review is required for any ECIC or endorsement that (1) is on the COI list provided to the AIP by RMA, and (2) a claim for indemnity is filed.*

**Consecutive Loss Adjuster Reviews:** *A Consecutive Loss Adjuster Review is required of at least 15 percent of the ECICs where, for any combination of ECIC and/or endorsement, all of which require individual loss adjustment, the same loss adjuster has signed the respective claims for indemnity for three consecutive years.* To illustrate, consider a producer that has purchased an individual yield based policy along with the High Risk Alternate Coverage Endorsement. If the producer has an indemnity under the individual yield based policy and/or the High Risk Endorsement for three consecutive years, and the same adjuster signs the claim for all three years, this producer would be subject to the 15 percent Consecutive Loss Adjuster Review requirement. Conversely, for a producer with an individual yield based policy and the Supplemental Coverage Option (SCO), any SCO claim would not count toward the three consecutive years because SCO does not require individual loss adjustment.

**\$200,000 Indemnity Reviews:** A \$200,000 Indemnity Review is required for any ECIC, or for any endorsement that provides for an indemnity distinct from the underlying ECIC, for which the indemnity exceeds \$200,000. Below is a guide to application of the \$200,000 Indemnity Review requirement for the various permutations of ECICs and endorsements.

- *When two plans of insurance are combined (e.g., individual yield based policy and Margin Protection), each policy is treated as an ECIC subject to its own \$200,000 Indemnity Review.*
- *When the indemnity for the endorsement (or ECIC) is directly a function of the indemnity of the underlying ECIC as with cottonseed, the indemnities for the underlying policy and endorsement/ECIC are summed to determine if the \$200,000 threshold is met.*
- *An endorsement that modifies the underlying plan of insurance (MUP) without providing for a separate indemnity payment is not subject to \$200,000 Indemnity Review. Rather, the \$200,000 Indemnity Review would apply to the underlying ECIC as modified by the endorsement.*

**Rainfall Index and Vegetation Index Reviews:** *Review requirements for any ECIC or endorsement based upon either of these insurance plans are as stated in SRA Appendix IV, section III(b)(3)(D), augmented with the requirement to verify that the reported practice is a good farming practice, per element (4) in the definition of inspection in Section I of the SRA. The*

latter requirement was added because of concerns that some insureds were not reporting the practice correctly, which resulted in guarantees higher than otherwise warranted.

## **CATEGORIES OF INSURANCE PLANS AND ENDORSEMENTS**

The SRA Appendix IV review requirements implicitly assume a single ECIC (and potential indemnity payment) for any insured commodity. However, new insurance features allow producers to purchase multiple insurance products for a given commodity, each covering a different aspect or layer of risk. The below provides guidance regarding the treatment of potential combinations of insurance plans and endorsements.

### **Stand-Alone Insurance Plans**

For review purposes, certain plans of insurance are grouped into larger categories. The defining characteristics for the groupings are described below. Certain insurance plans not readily grouped with other plans are maintained as separate, distinct categories in the Review Matrix.

**Individual Yield Based:** This category includes plans of insurance that base the guarantee, at least in part, upon the production history of the individual producer. This category also requires a loss adjuster to make an assessment of the cause and amount of loss claimed by the producer. A review of an ECIC from this category will require an AIP to conduct an inspection as defined in section I of the body of the SRA, along with an Actual Production History Verification as defined in SRA Appendix IV, section III(c).

**Asset Based:** Plans of insurance in this category base the guarantee on the physical stock/value of the productive asset rather than production, such as for tree and nursery crops. For review purposes, this category also includes the Dollar plans of insurance for which the guarantee is derived from a fixed monetary value established by RMA. This category of insurance plans requires a loss adjuster to make an assessment of the causes and amount of loss claimed by the individual producer.

**Area Based:** These plans of insurance provide coverage based, at least in part, upon the production history of some broader geographic aggregate (e.g., a county) as reported by a governmental agency (e.g., USDA National Agricultural Statistics Service) or similar authority. Loss determinations are also based upon data reported by the governmental agency, such that a loss adjuster is not needed to validate the cause and amount of loss for an individual producer.

**Rainfall Index & Vegetation Index:** Any ECIC based on the Rainfall Index or Vegetation Index insurance models, including policies for Annual Forage and for Apiculture. Loss determinations are based upon precipitation measurements or digital imagery from a third party source, such that a loss adjuster is not needed to validate the cause and amount of loss for an individual producer.

**Actual Revenue History, Whole Farm Revenue Protection, Margin Protection, and Stacked Income Protection:** These insurance plans are maintained as separate, distinct categories in the Review Matrix with specified review and inspection requirements for each. Both Margin Protection (MP) and Stacked Income Protection (STAX) reflect Area Based insurance principles. However, MP and STAX are offered as both stand-alone insurance plans as well as endorsements, unlike other Area Based plans. Thus, MP and STAX are not included in the Area Based category.

### **Two Insurance Plans**

In certain situations producers have the option to purchase two plans of insurance that provide complementary coverage, e.g., a cotton producer who purchases a Revenue Protection policy along with a Stacked Income Protection policy. In these situations, each ECIC is treated as an independent policy subject to the applicable review and inspection requirements of the corresponding stand-alone insurance plan. For example, the Revenue Protection ECIC in the above cotton producer example would be subject to all review and inspection requirements of the stand-alone individual yield based category. Similarly, the Stacked Income Protection ECIC would be subject to the review and inspection requirements of a stand-alone STAX ECIC.

### **Endorsements**

For purposes of quality control reviews, three types of endorsements are identified:

- MUP Endorsement – modifies coverage of underlying policy.
- Factored Endorsement (or ECIC) – indemnity provided under the endorsement (or ECIC) is a function of the indemnity of the underlying policy.
- Independent Endorsement – indemnity provided under the endorsement is triggered independently of the indemnity of the underlying policy.

**MUP Endorsement:** This type of endorsement modifies the coverage of the underlying plan of insurance, but does not itself provide for an indemnity payment. For example, the Dry Bean Revenue Endorsement adds revenue protection to the Dry Bean yield policy, and this modified policy is the basis on which coverage amounts, premiums, and indemnity payments are determined. The Dry Bean Revenue Endorsement, however, does not provide for an indemnity payment separate from that of the Dry Bean yield policy. The MUP Endorsement is not subject to any reviews that are independent of and distinct from those of the underlying ECIC. Rather, the review and inspection requirements apply to the ECIC as modified by the MUP Endorsement.

**Factored Endorsement (or ECIC):** This type of endorsement or ECIC provides for an indemnity that is derived from the indemnity of the underlying ECIC. For example, consider an endorsement in which the guarantee, production to count, and indemnity are set equal to 0.2 times the corresponding values for the underlying ECIC. Thus, once the amount of loss/indemnity is known for the underlying ECIC, the corresponding amount of loss/indemnity

for a Factored Endorsement is also known (perhaps following some additional mathematical manipulation). Because the loss for a Factored Endorsement is wholly dependent on the loss of the underlying ECIC, the two indemnities are summed for purposes of a \$200,000 Indemnity Review. Except for the Individual Policy Review, other reviews will originate with the underlying ECIC. The Cottonseed Pilot Endorsement is currently the only Factored Endorsement offered.

**Independent Endorsement:** The indemnity provided with this type of endorsement is triggered independently of any indemnity determined for the underlying ECIC. For example, a rice producer could receive an indemnity under the Downed Rice Endorsement but receive no indemnity from the individual yield based policy. The review and inspection requirements for independent endorsements reflect those of the insurance plan category each endorsement most closely resembles. Thus, for example, the review and inspection requirements for the Downed Rice Endorsement, CAT for High Risk Land and High Risk Alternate Coverage endorsements reflect those of the individual yield based plan. Likewise, the review and inspection requirements for the Supplemental Coverage Option reflect those of the Stacked Income Protection insurance plan because the two insurance products are conceptually similar.

**SRA APPENDIX IV REVIEW REQUIREMENTS**

Insurance Plans & Endorsements	Applicable Reviews						Inspection Element									
	Data Mining	Individual Policy	Conflict of Interest	Consec Loss Adjuster	\$200K Indemnity **	Rainfall & Veg Index	1	2	3	4	5	6	7	8	9	10 (a)
<i>Stand-Alone Insurance Plans</i>																
Individual Yield Based	y	y	y	y	y		y	y	y	y	y	y	y	y	y	
Asset Based	y	y	y	y	y		y	y	y	y	y	y	y	y		
Area Based		y	*		y		y	y	y	y	y	y	y	y		
Rainfall Index & Vegetation Index		y	*		y	y			y							y
Actual Revenue History	y	y	y	y	y		y	y	y	y	y	y	y	y	y	
Whole Farm Revenue Protection	y	y	y	y	y		y	y	y	y	y	y	y	y		
Margin Protection		y	*		y		y	y	y	y	y	y	y	y		
Stacked Income Protection		y	*		y		y	y	y	y	y	y	y	y		
<i>Two Insurance Plans</i>																
Individual Yield \ Margin Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n
Individual Yield \ Stacked Income Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n
Whole Farm \ Stacked Income Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Individual Yield	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	n \ y	
Whole Farm \ Area Based	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Asset Based	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
Whole Farm \ Actual Revenue History	y \ y	y \ y	y \ y	y \ y	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	n \ y	
Whole Farm \ Margin Protection	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		
<i>Underlying Plan + Separate Endorsement</i>																
Individual Yield + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m	m	
Asset Based + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m		
Actual Revenue + MUP	m	m	m	m	m		m	m	m	m	m	m	m	m	m	
Individual Yield \ Supplemental Coverage Option	y \ n	y \ y	y \ *	y \ n	y \ y		y \ y	y \ n	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
Individual Yield \ High Risk Alternate Coverage	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	
Individual Yield \ CAT for High Risk Land	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	
Individual Yield \ Downed Rice Endorsement	y \ y	y \ y	y \ *	b	y \ y		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ n	
<i>Underlying Plan + Factored Endorsement</i>																
Individual Yield \ Cottonseed Pilot	y \ n	y \ y	y \ n	y \ n	c		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	
Stacked Income Protection \ Cottonseed Pilot		y \ y	* \ n		c		y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y	y \ y		

Individual Policy Review: A review of an ECIC specifically assigned by RMA to an AIP and denoted as such in the correspondence (email, letter) directing the AIP to conduct the review.

10 (a) Three percent random sample requirement applies to PRF, Apiculture, and Annual Forage.

\*\* Only for cells denoted with a "c" are the first and second plan indemnities summed for \$200K Indemnity Review purposes. For all other entries, the indemnity triggers are independent.

Insurance Plan Category	Insurance plans included in category	Insurance Plan Category	Insurance plans included in category
Individual Yield Based	01, 02, 03, 41, 90	Actual Revenue History Endorsement	47
Asset Based	40, 43, 50, 51, 55	Whole Farm Revenue Protection	76
Area Based	04, 05, 06	Margin Protection	16, 17
Rainfall Index & Vegetation Index	13, 14	Stacked Income Protection	35, 36

Codes used in review matrix

y : Yes, review requirement is applicable to plan/endorsement

m : Yes, review requirement applicable to underlying plan as modified by endorsement

n : No, review requirement is not applicable to plan/endorsement

Blank cell : Does not apply

\* : Currently not subject to a Conflict of Interest review as data mining does not identify anomalies among the individual ECICs for the indicated plans of insurance.

y \ y : Yes, applicable to first plan independent of second plan \ Yes, applicable to second plan (or endorsement) independent of first plan

y \ n : Yes, applicable to first plan independent of second plan \ No, not applicable to second plan (or endorsement)

c : Cumulative indemnity (\$200K Indemnity Review triggered if cumulative indemnity > \$200K)

\*\* Only for cells denoted with a "c" are first and second plan indemnities summed for \$200K review purposes. For all other entries, the indemnity triggers are independent.

b : Triggered if same loss adjuster signs claim for indemnity for the underlying plan and/or endorsement in 3 consecutive years.

Illustrations:

Individual Based: Subject to all review requirements, and inspection elements 1-9.

Area Based: Subject only to Conflict of Interest and \$200K Indemnity reviews, and inspection elements 1-8.

Individual Yield \ Margin Protection: Ind Yield subject to all review requirements and inspection elements 1-9; Margin Protection subject to Individual Policy and \$200K Indemnity reviews with inspection elements 1-8. Do not combine indemnities for purposes of \$200K Indemnity review.

c: \$200K Indemnity review triggered if Indiv Yield indemnity + Cottonseed indemnity > \$200K, no \$200K Indemnity review if sum of indemnity payments ≤ \$200K.

b: Consec Loss Adjuster review triggered if same loss adjuster signs claim form 3 consecutive years for any combination of indemnity payments on plan and endorsement. For example, if adjuster A only signed the claim form for Individual Yield in year 1, the Downed Rice claim form in year 2, and the Individual Yield claim form in year 3, that would qualify for a Consec Loss Adjuster review.

Inspection elements as defined in the SRA

SRA Section I. Definitions

"Inspection" means verification:

- 1 As to whether the application, production report, acreage report, notice of claim, or other relevant documents in accordance with FCIC procedures (such as a Farm Report for AGR eligible crop insurance contracts) were timely submitted; [Note: Whole Farm has replaced AGR]
- 2 Of the information reported on the documents:
  - A Referenced in (1) above, and related to the claim, including preliminary and final loss adjustment (Verification of the approved yields will consist of examination of the records supporting the last three years certified for the crop); and
  - B Related to pre-harvest, growing season, or pre-acceptance examination of the crop;
- 3 That policy documents, including, but not limited to, actuarial documents, have been properly used and applied;
- 4 That the reported practice is being carried out in accordance with good farming practices;
- 5 That the crop has been planted, or replanted as applicable;
- 6 That the policy constitutes an eligible crop insurance contract;
- 7 That the producer qualifies as an eligible producer; and
- 8 That the agent or loss adjuster has complied with FCIC procedures."

SRA Appendix IV, Section III('c)

- 9 APH record reviews are required for all eligible crop insurance contracts reviewed under Appendix IV for which APH forms the basis for all or part of the guarantee.

SRA Appendix IV, Section III(b)(3)(D)

- 10 Review requirements for Rainfall Index and Vegetation Index plans of insurance. Three percent random sample requirement applies to PRF, Apiculture, and Annual Forage.

MUP: Endorsement that Modifies Underlying Plan of Insurance

Dry Bean Revenue Endorsement	Adds revenue coverage to underlying policy
Dry Pea Revenue Endorsement	Adds revenue coverage to underlying policy
Florida Fruit Tree Comp Tree Value Endorsement	Adds CTV to underlying policy
Hawaiian Tropical Tree Pilot Crop Endorsement	Adds CTV to underlying policy
Hybrid Seed Price Endorsement	Adds alternative pricing mechanism for underlying policy
Malting Barley Endorsement	Adds alternative pricing mechanism for underlying policy
Northern Potato Certified Seed Endorsement	Provides coverage for certified seed potato production
Northern Potato Processing Quality Endorsement	Modifies production to count for underlying policy for quality adjustments for processing purposes
Northern Potato Quality Endorsement	Modifies production to count for underlying policy for quality adjustments
Northern Potato Storage Endorsement	Extends period for discovering insured losses for underlying policy
Nursery Price Endorsement	Adds alternative pricing mechanism for underlying policy
Nursery Rehabilitation Endorsement	Adds coverage for rehabilitation costs incurred to recover from injuries due to an insured cause of loss
Nursery Peak Inventory Endorsement	Adds coverage to increase liability during peak inventory period
Onion Pilot Stage Removal Option	Eliminates stage-based guarantees for underlying policy
Quarantine Endorsement	Adds quarantine as an insured cause of loss to underlying policy
Silage Sorghum Pilot Endorsement	Adds new crop to underlying policy
Sprinkler Irrigated Rice Endorsement	Adds new insurable practice to underlying policy
Sugar Beet Stage Removal Option	Eliminates stage-based guarantees for underlying policy
Sweet Potato Storage Endorsement	Extends period for discovering insured losses for underlying policy
Texas Citrus Tree Comp Tree Value Endorsement	Adds CTV to underlying policy
Texas Citrus Tree Coverage Enhancement Option	Adds CEO for underlying policy
Winter Coverage Endorsement	Adds options to underlying policy for winter kill of fall-planted wheat and barley