

IS-14-001

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Date

February 4, 2014

To

All Approved Insurance Providers

All Risk Management Agency Field Offices

All Other Interested Parties

From

Heather Manzano, Acting Deputy Administrator for Insurance Services

Subject

Interviews and Surveys Related to the Cost of Delivery Study

The Risk Management Agency (RMA) contracted with KPMG, LLP (KPMG) to conduct an independent study of the economic costs of delivering the Federal crop insurance program to US agricultural producers. KPMG will conduct a number of interviews and surveys which will impose an information collection burden on the general public. Thus, RMA and KPMG were required by the Paperwork Reduction Act to obtain approval from the Office of Management and Budget (OMB) to conduct the data collection exercise as it relates to the interviews, surveys and related collection activities. Approval has been granted.

KPMG has already begun interviews with Approved Insurance Providers (AIPs). The AIPs selected to be interviewed were chosen to reflect many of the salient characteristics of different company operations, e.g., size of company, geographic focus, etc. and not all AIPs will be interviewed. The purpose of the AIP interviews is to better understand the activities performed and types of costs incurred by the AIPs to deliver Federal crop insurance to producers, particularly those activities and costs that are distinct from those of insurance agents. Information collected from the interviews with AIPs relate to the business operations models used in selling and servicing Federal crop insurance, with a particular focus on the relationship with agents, expense structure, and financial reporting to RMA. 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.

KPMG will also conduct parallel surveys of crop insurance agents and insured producers. The purpose of the survey of the insurance agents is to collect relevant cost data incurred by the insurance agents in selling and servicing Federal crop insurance policies. General background information on the surveyed insurance agents, e.g., geographical region, types and number of crop insurance policies sold, will also be collected. The survey will provide 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. 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. This information will be used to evaluate the factors measurably contributing to the costs of delivering the Federal crop insurance program. KPMG will begin the survey of crop insurance agents in March of 2014.

KPMG will conduct a parallel survey of the insured farmers to whom the sampled insurance agents sell crop insurance. The producer survey will be conducted to determine the level of service (e.g. number of insurance agent visits, educational services, and other services) that is necessary for the farmers to make an informed decision. Several types of data will be collected including general background of the producers and the interaction between producers and insurance agents. 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. KPMG will begin the survey of insured producers in March of 2014.