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Stan Harkey
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U.S Department of Agriculture, Risk Management Agency
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Dear Mr. Harkey,

In response to the Federal Register, Vol. 77, No. 130, ID No. FCIC-12-0007, published on Friday, July 6, 2012, Rain and Hail submits the following comments on RMA's study of the costs associated with selling and servicing crop insurance. First, we assert that conducting a limited number of interviews along with a survey could potentially result in inaccurate conclusions because delivery costs vary significantly by agency, crop, plan of insurance and region. Therefore, the goal of accurately establishing a standard method for assessing agencies' reasonable costs in selling and servicing policies may not be met. Second, we feel strongly that KPMG should be cautious not to prejudge the final estimated cost of the program relative to current A&O levels or any other spending measure.

Below are our responses to the specific Federal Register requests:

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?**

   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.

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?**

   Based on our limited knowledge of the interviews and survey response rates, we are unable to determine the accuracy of the estimates at this time. We do have a number of concerns regarding the methodology and assumptions used:

   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 make-up 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 MPCI insurers compared to the costs of insurers in other P&C lines of business we note that as participants in the Federal MPCI 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.

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

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.

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.

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?**

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.

Regards,

Marjorie Guyler-Alaniz

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