



Federal Accounting Standards Advisory Board

November 26, 2014

Memorandum

To: Members of the Board

Robin M. Gilliam

From: Robin M. Gilliam, Assistant Director

Through: *Wendy M. Payne*
Wendy M. Payne, Executive Director

Subject: Risk Assumed—Insurance Phase¹ – Tab G²

MEETING OBJECTIVES

- I. To determine whether to include claim adjustment expenses in the liability for unpaid claims.
- II. To determine whether to distinguish between a liability for unpaid claims and a liability for premium deficiency.

BRIEFING MATERIALS

- Staff Memo
- Appendices: (Optional Reading for Reference)
 - Appendix A: Risk Assumed - Project Decision History and Milestones
 - Appendix B: National Flood Insurance Program (NFIP) 2014 Statement of Actuarial Opinion and accompanying report for loss and loss expense reserves as of September 30, 2014
 - Appendix C: Standard Reinsurance Agreement between the Federal Crop Insurance Corporation (FCIP) and the Insurance Company

¹ The insurance program phase of risk assumed does not include life insurance programs.

² The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

During the October 2014 meeting the following items were discussed:

Borrowing Disclosure:

The Board decided to require insurance programs to disclose their borrowing authority, borrowing balances, interest expense, the ability to repay the borrowing, and explain any material differences in accordance with SFFAS 1, SFFAS 5, and SFFAS 7, but will not prescribe how or where the program will place the disclosures.

Earned/Unearned Premiums:

In relation to recognizing and disclosing earned and unearned premiums, the Board directed staff to begin with the revenue standards available in SFFAS 7, paragraphs 36–37, and include in the new standards guidance specific to insurance contracts but consistent with SFFAS 7.

Claim Adjustment Expenses:

In response to staff's question about whether to include claim adjustment expenses in the liability for unpaid claims, the Board requested additional information on how difficult it is for insurance programs to calculate and how it is calculated.

Liability for Premium Deficiency:

After a lengthy discussion, the Board decided that, before they could determine whether (1) to separate the current SFFAS 5 insurance liability into two components—liability for unpaid claims and liability for premium deficiency, and (2) to more clearly address recognition of contingent liabilities by expanding federal GAAP for federal insurance programs, they requested an education session to learn more from the actuaries behind the estimates.

Proposed Standard:

In relation to the wording for the proposed standard, staff noted that the criteria for insurance programs will most probably be moved to the Basis for Conclusion section because it did not add anything to the insurance program definition.

The Board requested that staff:

- Rewrite paragraph 19 to allow for more flexibility in aggregating types of insurance programs
- Merge 19a and 19b in order to reduce duplicity and tie any explanations for material differences to the chart line items.

- Rewrite 19g to request a disclosure on how premium prices are determined and contribute to managing risk.

I. Determine whether to include claim adjustment expenses (CAE) in the liability for unpaid claims:

Staff Analysis

During the October 2014 meeting staff recommended to the Board that claim adjustment expenses (CAE) be included in the liability for unpaid claims in order to capture full settlement costs.

Claim adjustment expenses—expenses incurred in the course of investigating and settling claims. Claim adjustment expenses include any direct expenses incurred such as legal and adjusters' fees, and the costs of paying claims and all related expenses.

In response to the Board's request for more information, staff met with the task force to understand how difficult it is to calculate and how CAE is calculated.

How difficult is it to calculate CAE?

Per the Federal Crop Insurance Corporation (FCIC) and the National Flood Insurance Program (NFIP) there are no additional efforts to calculate CAE because this information is already collected for the financial statements.

Per the Pension Benefit Guarantee Corporation (PBCG)—CAE is not applicable to PBGC accounting because they do not enter into insurance contracts.

How is CAE calculated?

FCIC:

FCIC calculates and reimburses program delivery costs to their approved insurance providers (AIPs) as a set percentage³ of premiums and, therefore, do not increase with the incurrence of claims.

Reimbursement Rates Table⁴

Insurance Plans	Reimbursement Rates (depending on coverage level)
Group Risk	12%
Pasture Rangeland and Forage	20.1%
Revenue (Harvest Price Option)	18.5%
Other Additional Coverage	21.9%
Catastrophic Coverage	6%

The program delivery costs include both sales and servicing of the policies and claim adjustment expenses, but not FCIC's federal administrative costs. FCIC does not include CAE in their liability for unpaid claims because it was paid as a flat fee.

NFIP:

NFIP pays loss adjustment expenses for their claims. There are three methods of calculating the amount paid:⁵

1. Allocated Loss Adjustment Expense (ALAE): NFIP compensates their insurance carriers based on an industry schedule that determines the standard amount of compensation for each individual claim loss amount. For example, for a \$10,000 claim paid, NFIP pays \$970 to the carriers. These are paid on a claim by claim basis for the direct costs associated with settling individual claims.

³ See Appendix C - Standard Reinsurance Agreement between the Federal Crop Insurance Corporation and the (Insurance Company Name) (Hereafter "Company")

⁴ Federal Crop Insurance Corporation /Risk Management Agency's Financial Statements for Fiscal Years 2013 and 2012, page 10

⁵ See Appendix B for the National Flood Insurance Program Reserve Valuation as of September 30, 2014, and Statement of Actuarial Opinion.

2. Special Allocation Loss Adjustment Expense (SALAE): NFIP may reimburse for special allocated direct expenses that are above and beyond the ALAE. NFIP reviews reimbursement documents to determine to pay or not. For example, SALAE expenses may include the use of structural and/or geotechnical engineers, and forensic accountants for large inventory losses.
3. Unallocated Loss Adjustment Expenses (ULAE): NFIP pays a percentage of incurred loss (1.5%), plus a percentage of net written premiums⁶ (0.9%) to cover the insurance carriers' general overhead (indirect) expenses for settling losses. For example, during Sandy they rented facilities to work in and incurred significant travel costs for their staff.

The loss adjustment expenses includes ALAE, SALAE, and ULAE and excludes federal administrative costs. Loss adjustment expenses are related to claims and therefore will increase or decrease with the incurrence of claims.

The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency.⁷

Staff Recommendation

Claim adjustment expenses should be included in the liability for unpaid claims if they are related to claims and measurable.

Question I: Does the Board want to include claim adjustment expenses in the liability for unpaid claims?

⁶ Net written premium is the total amount of premiums written by the company including the effects of all mid-term endorsements and cancellations.

⁷ FY 2014 Agency Financial Report U.S. Department of Homeland Security: Notes to the Financial Statements, 1. Summary of Significant Accounting Policies, S. Insurance Liabilities, page 74.

II. Determine whether to distinguish between a liability for unpaid claims and a liability for premium deficiency

Staff Analysis

The task force discussed a draft of the paper that follows. They agreed that:

- contingent liabilities exist and are important for their insurance programs
- contingent liabilities should only be recognized if probable, measurable, and material
- a disclosure is necessary to clarify for readers the uncertainty of these programs
- the term “liability for premium deficiency” is not very clear or understandable

The task force emphasized that future losses—even in the remaining months of existing contracts—are very difficult to measure, especially for the weather driven programs such as FCIC and NFIP. Many federal insurance programs face low frequency high cost events.

Some of the task force members requested that the new insurance standards clearly define the contingency terms, such as “probable”, and how they apply to insurance programs. They specifically want guidance on how to measure losses given the high degree of uncertainty and for what time period.

Staff has tentatively adopted the term “liability for future net losses” but recognizes that conveying the substance of the amount in a short title will be challenging.

Below is a paper that explains and supports why net future losses produce a contingent liability.

NET FUTURE LOSSES ON INSURANCE CONTRACTS ARE A CONTINGENT LIABILITY

WHAT IS A CONTINGENCY?

PER SFFAS 5:

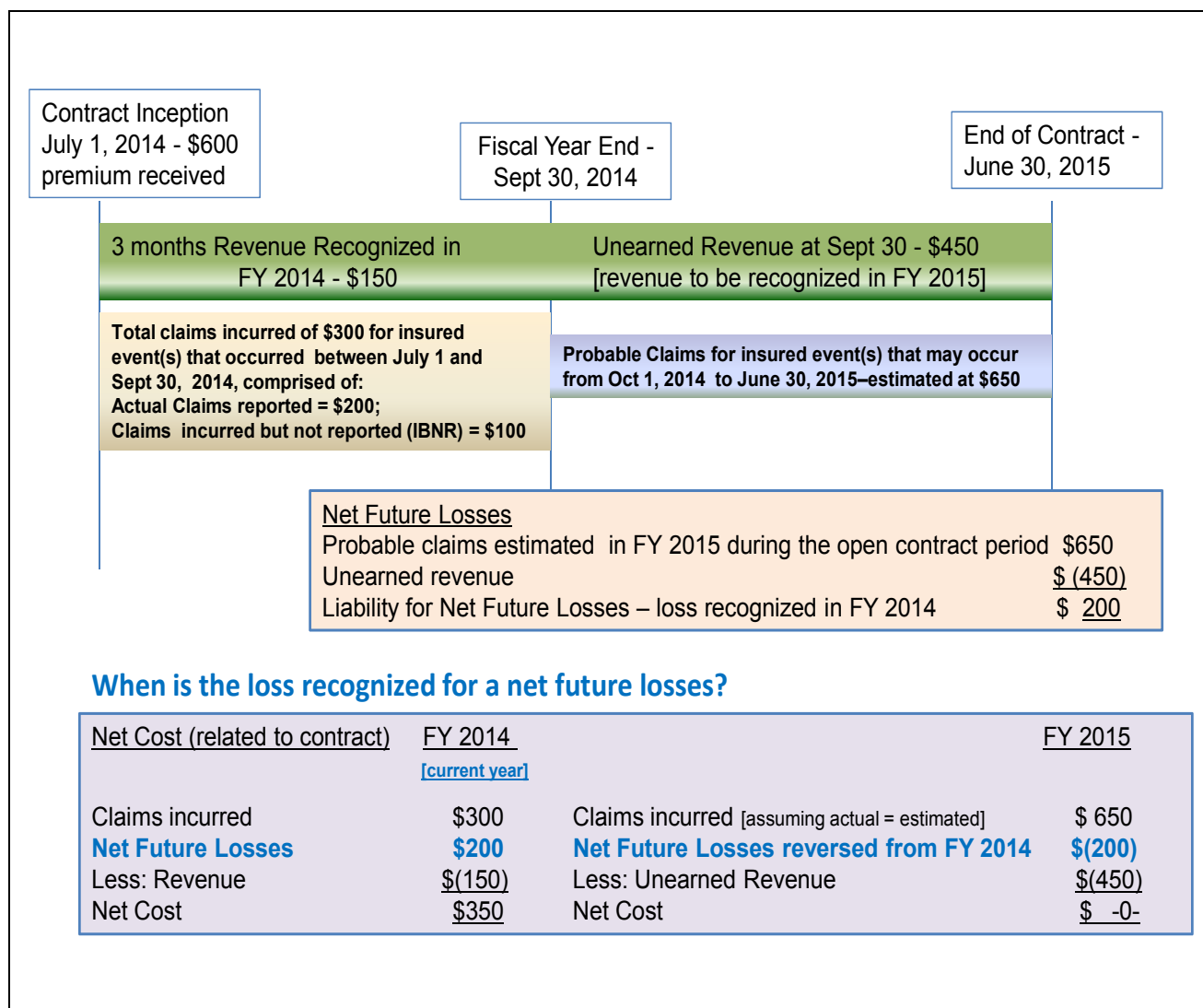
35. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability). When a loss contingency (i.e., contingent liability) exists, the likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. The probability classifications are as follows:

- **Probable:** The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.
- **Reasonably possible:** The chance of the future confirming event or events occurring is more than remote but less than probable.
- **Remote:** The chance of the future event or events occurring is slight.

WHY AN INSURANCE CONTRACT IS A CONTINGENCY

A contingency is:	Insurance contracts are contingencies because:
An <u>existing condition</u> , situation, or set of circumstances	An active contract is an existing condition.
Involving <u>uncertainty</u> as to possible gain or loss to an entity	There is uncertainty as to the extent and timing of insured events and therefore the related gains or losses on the active contract.
The uncertainty will ultimately be <u>resolved when</u> one or more future events occur or fail to occur	The filing of claims for an insured event that occurred during the open contract period will resolve the uncertainty.

HOW ARE NET FUTURE LOSSES CALCULATED⁸



⁸ Note – this information will be used throughout the rest of the document

WHY THE ILLUSTRATED CONTRACTS HAVE NET FUTURE LOSSES THAT SHOULD BE RECOGNIZED AS A LIABILITY

<p>SFFAS 5 - Paragraph 38.</p> <p><i>A contingent liability should be recognized when all of <u>these three conditions</u> are met:</i></p>	<p style="text-align: center;">Staff Analysis:</p>
<p>1. <i>A <u>past event or exchange transaction has occurred</u> (e.g., a federal entity has breached a contract with a nonfederal entity).</i></p>	<p>An <u>exchange transaction has occurred</u> in the form of an insurance contract for which the agency collected \$600 on July 1, 2014.</p> <p>\$150 of the revenue was recognized for the contract period during the current fiscal year, from July 1 – September 30, 2014.</p> <p>The remaining \$450 was booked as a liability for unearned revenue for the remaining open contract period that extended into the next fiscal year, ending on June 30, 2015.</p>
<p>2. <i>A future outflow or other sacrifice of resources is <u>probable</u> (e.g., the nonfederal entity has filed a legal claim against a federal entity for breach of contract and the federal entity's management believes the claim is likely to be settled in favor of the claimant).</i></p>	<p>Based on past trends and future forecasts, it is <u>probable</u> [more likely than not] that claims estimated at \$650 will be incurred from insured events that occur from Oct 1, 2014, to June 30, 2015,</p>
<p>3. <i>The future outflow or sacrifice of resources is <u>measurable</u> (e.g., the federal entity's management determines an estimated settlement amount).</i></p>	<p>The estimated probable claims of \$650 are greater than the unearned premium revenue of (\$450) for a net outflow of resources (loss) <u>measurable</u> at \$200.</p>

FINANCIAL STATEMENT LINE IMPACT

AMOUNTS	WHERE TO INCLUDE AMOUNTS AS OF 9/30/2014	
	Liability for Unpaid Claims incurred	Liability for Net Future Losses
Revenue for open contract period from Oct 1, 2014 to June 30, 2015.	NO	YES (450)
Actual Claims reported from insured events that occurred on or before September 30 th .	YES + \$200	NO
IBNR - Claims incurred but not reported for insured events that occurred on or before September 30 th .	YES + \$100	NO
Probable claims from insured events that may occur from Oct 1, 2014 to June 30, 2015.	NO	YES: Estimated at +650
Total	\$300	\$200

HOW NET FUTURE LOSSES COULD BE ESTIMATED

By:	Discussion:
Unearned Revenue	Collections in advance of earning revenue that are recognized as a liability as of the end of the reporting period.
Block	How agencies categorize insurance products to calculate losses.
Time period – <i>When a new premium can be set for the block of insurance products</i>	<p>Under FASB standards, premium deficiencies are assessed for the time period during which the commercial entity is committed and unable to adjust the premium to reflect experience.</p> <p>“Net future losses” should be considered for periods covered by existing policies at established premiums.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • When short-term contracts expire and are no longer active, for example, June 30, 2015. • When assessments are due, for example a quarterly billing period ends on December 31, 2014 (for regulatory arrangements setting assessments each quarter based on experience). • When long-term contracts expire beyond the next reporting period, for example, February 28, 2020. • Blocks that may not have a specific end date would calculate net losses until the next date at which premiums (if any) can be adjusted.
Assumptions re Subsequent Events:	<ul style="list-style-type: none"> • <u>Could know</u> if there is a subsequent event, for example, there could be a weather or international event that is “brewing” at end of reporting period and will most likely; occur shortly within the open contract period. Will have to make assumptions based on past trend information and future forecasts of “known” event. • <u>Could not know</u> about any events that will occur within the remaining open contract period or premium billing period. Will have to make assumptions based on past trend information.

Staff Recommendation:

Staff recommends that the Board distinguish between a liability for unpaid losses and a liability for premium deficiency.

- Staff recommends that the Board change the name from Liability for Premium Deficiency to Liability for Net Future Losses.
- Staff recommends focusing on open policies to determine net future losses.

Staff recommends that a liability for net future losses be recognized only if it is material to the financial statements.

Staff recommends that net future losses be disclosed in order to make clear the issue of uncertainty for insurance programs.

Question II: Does the Board want to distinguish between a liability for unpaid claims and a liability for ~~premium deficiency~~ net future losses?

QUESTIONS FOR THE BOARD:

Question I: Does the Board want to include claim adjustment expenses in the liability for unpaid claims?

Question II: Does the Board want to distinguish between a liability for unpaid claims and a liability for ~~premium deficiency~~ net future losses?

NEXT STEP:

Continue developing the proposed exposure draft.

MEMBER FEEDBACK:

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help me to prepare answers to your questions in order to make the meeting more productive. You can contact me by telephone at 202-512-7356 or by e-mail at gilliamr@fasab.gov with a cc to paynew@fasab.gov

TAB G – Appendices

(Optional Reading for Reference)

Risk Assumed: Insurance Programs

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A	Risk Assumed - Project Decision History and Milestones	1
B	National Flood Insurance Program (NFIP) 2014 Statement of Actuarial Opinion and accompanying report for loss and loss expense reserves as of September 30, 2014	6
C	Appendix C: Standard Reinsurance Agreement between the Federal Crop Insurance Corporation (FCIP) and the Insurance Company	44

TAB G

– Appendix A –

Risk Assumed: Insurance Programs Project Decision History and Milestones

October 2014:

Borrowing Disclosure:

The Board decided to require insurance programs to disclose their borrowing authority, borrowing balances, interest expense, the ability to repay the borrowing, and explain any material differences in accordance with SFFAS 1, SFFAS 5, and SFFAS 7, but will not prescribe how or where the program will logistically place the disclosures.

Earned/Unearned Premiums:

In relation to recognizing and disclosing earned and unearned premiums, the Board directed staff to begin with the revenue standards available in SFFAS 7, paragraphs 36–37, and include in the new standards guidance specific to insurance contracts but consistent with SFFAS 7.

Proposed Standard:

In relation to the wording for the proposed standard, staff noted that the criteria for insurance programs will most probably be moved to the Basis for Conclusion section because it did not add anything to the insurance program definition.

The Board requested that staff:

- Rewrite paragraph 19 to allow for more flexibility in aggregating types of insurance programs
- Merge 19a and 19b in order to reduce duplicity and tie any explanations for material differences to the chart line items.

- Rewrite 19g to request a disclosure on how premium prices are determined and contribute to managing risk.

August 2014:

The Board approved changing the name of this phase to Risk Assumed: Insurance Programs.

The Board approved the following definition, criteria, and exclusions:

A. DEFINITION:

Insurance programs¹ are authorized by law to accept all or part of the risk for losses incurred by a designated population of beneficiaries as a result of an adverse event by financially compensating them.

B. CRITERIA:

- Insurance programs are administered by an agency established to do so or within an agency that administers many programs.
- Insurance programs collect exchange or non-exchange revenue that may be earned through, but is not limited to, any or all of the following: premiums,² fees paid, excise taxes, penalties and/or fines, recoveries,³ interest received from investments and/or receivables, and/or budget authority including appropriations and borrowing authority.⁴
- Insurance programs create an agreement⁵ or arrangement that specifically states:
 - the role the program will play,
 - who the parties are that may contribute funding,
 - the designated population that may be beneficiaries and their responsibilities for receiving compensation for losses,⁶

¹ Insurance programs will also include guarantee programs not designed for loan/debt guarantees.

² The term “premiums” will be used to mean premiums, fees paid, excise taxes, penalties and/or fines.

³ Recoveries may be monies recouped or recovered from: (1) another agency through an indemnification agreement, (2) a third party or commercial insurance company to repay all or part of a loss originally paid for by the program, and/or (3) the sale of salvageable parts through acquisition and disposal or salvage of assets. Recoveries may also be adjustments to already paid claims where the claimant owes money back to the program for a loss that wasn’t realized.

⁴ Sources of funding are broad and the charging of “premiums” (or other fees) is not necessary for a program to qualify as an insurance program.

⁵ Insurance programs may enter into explicit arrangements or agreements with specific individuals, state, local, or foreign governments, other federal agencies, or businesses to carry out their mission.

- funding requirements,
- financial compensation to be paid,
- the adverse event (other than a defaulted debt obligation), and
- if and how much to place in reserves.
- Insurance programs assume risk for the uncertainty of an adverse event occurring (other than a defaulted debt obligation), and the amount of compensation expected to be paid for losses.
- Through insurance programs the federal government assumes:
 - all risk for covered losses;
 - partial risk by filling a gap where commercial Insurance companies are not able or willing to provide the insurance; or
 - a timing risk wherein the insurance program provides compensation for losses at the time claims are received and processed in anticipation that future funding sources will be sufficient to cover all or part of past benefits paid.

C. EXCLUSIONS:

- a. Loan guarantee programs as defined in SFFAS 2 (as amended) are not included as insurance programs.
- b. Social insurance programs as defined in SFFAS 17 (as amended) are not included as insurance programs.⁷
- c. Disaster relief programs that provide discretionary funding, goods, and/or services are not included as insurance programs.⁸
- d. Entitlement programs that administer eligibility requirement applications to provide means tested benefits are not included as insurance programs.
- e. “Self-insurance,” where the government assumes the risk of loss for some its own activities⁹ is not included as insurance programs.

⁶ Beneficiaries may or may not directly participate in an explicit agreement/arrangement prior to becoming eligible to receive compensation. An example where a beneficiary does directly participate and receives compensation is when a U.S. investor purchases risk insurance for political violence and upon an act of politic violence that impacts their business investment may receive compensation. An example where beneficiaries do not directly participate is when a service provider pays premiums directly to a federal insurance program and upon failure provides a list of customers as beneficiaries whom the program may compensate.

⁷ Includes unemployment insurance as this is captured also in SFFAS 17.

⁸ Criteria updated due to discussion with Chairman Allen concerning funding that was provided to Washington State mud slide victims in addition to goods and services. In addition, it is the Stafford Act that authorizes and regulates disaster relief programs

⁹ GAO, Catalogue of Federal Insurance Activities, GAO-05-265R, page 4.

- f. Programs whose missions are not by statute to provide insurance but which process claims through an administrative or judicial process¹⁰ are not included as insurance programs.
- g. Programs whose missions are not by statute to provide insurance but which provide security against loss or damage through contractual indemnification of another party¹¹ are not included as insurance programs.

April 2014

The Board revisited the definition and reviewed the similarities and differences with loan guarantee programs under the Federal Credit Reform Act and asked staff to address the following questions/concerns:

- 1) Distinguish insurance/non-loan guarantee programs from loan guarantee programs in the definition.
- 2) What value does the term “non-loan guarantees” add? Can it be removed from the definition?
- 3) Clarify the exclusion of disaster relief programs in relation to the type of compensation provided.

March 2014:

The Board generally agreed with the insurance/non-loan guarantee definition, upon updates from Mr. Dacey, as well as the characteristics and exclusions presented in the staff memo with the understanding that as staff develops the standard and new information is discovered changes are possible and will be finalized within the standard.

Staff worked with Mr. Dacey to update some of his concerns with the definition.

The following is the revised definition:

A federal insurance/non-loan guarantee program is a program authorized by law to accept all or part of the risk by financially compensating the designated population for losses incurred as a result of an adverse event as defined by the:

- A. law or otherwise enforceable by law,
- B. related regulations,
- C. agency policies, or

¹⁰An example is an administrative settlement of tort claim resulting from military events.

¹¹These are administrative settlements for transactions occurring by contractors with FAR authorized indemnification clauses or first responders within programs that do NOT have a statutory insurance or guarantee mission.

D. explicit arrangements or agreements

December 2013:

1. The Board agreed with staff's recommendation that it would be difficult to apply the FASB proposed insurance contracts definition to federal insurance/guarantee programs
 - Board requested and Staff agreed to present FASB's proposed definition to the Task Force during the development of the federal definition
2. The Board agreed with Staff's next step to develop a general definition and specific characteristics of insurance and guarantee programs.

June 2013:

1. The Board agreed with staff's recommendation to ask the four federal entities identified to respond to specific questions on FASB's insurance contracts proposal. Staff would use those responses to identify application concerns that would be unique to a federal entity.
2. The Board agreed to further narrow the scope to federal insurance and guarantee **programs** rather than contracts to support the structure of the federal environment and president's budget.

February 2013:

The risk assumed project will be addressed in a **phased approach**:

- Phase I: Insurance and Guarantees
- Phase II: Entitlement Programs, including: national defense, security and disaster response; and other potential effects on future outflows, such as regulatory actions, GSE's, etc.
- Phase III: Commitments and Obligations and other risk areas



November 13, 2014
Ref. No. R-16487

Mr. Kevin Montgomery
Contracting Officer's Representative
Federal Emergency Management Agency
500 C Street, SW
Washington, DC 20472

Dear Mr. Montgomery:

We are pleased to submit the fiscal year 2014 Statement of Actuarial Opinion and its accompanying report for the loss and loss expense reserves carried by the National Flood Insurance Program (NFIP) as of September 30, 2014. These reserves are based on data received from the WYO companies and the NFIP Direct Servicing Agent.

To the extent possible, the preparation of the Actuarial Opinion was drafted in conformance with the Property and Casualty Annual Statement Instructions for 2013.

A detailed actuarial report, including underlying workpapers supporting the findings expressed in this Statement of Actuarial Opinion, will be retained by the National Flood Insurance Program for a period of seven years in the administrative offices of NFIP.

If you have any questions concerning this letter or this Statement of Actuarial Opinion, please call me at (301) 918-1430.

Sincerely,

A handwritten signature in black ink, appearing to read "Demetris B. Brown", is positioned above the printed name.

Demetris Brown, CPA, CMA, CIA, CGMA, CRMA
Project Director,
NFIP Legacy Systems Services

Enclosures

Cc: Dennis Kuhns
Ed Connor
Tom Hayes
Dan Spafford

Greg Teets
Bonnie Shepard
Claudia Murphy
Cheryl Hinton

NATIONAL FLOOD INSURANCE PROGRAM

Reserve Valuation as of September 30, 2014

October 30, 2014

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TABLE OF EXHIBITS

SUMMARY RESERVE EXHIBITS

Summary Exhibit	Summary, Exhibit 1
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Ultimate ALAE and ALAE Reserve Estimate	Summary, Exhibit 3
Reserve Ranges	Summary, Exhibit 4

UNDERLYING CALCULATIONS

“Write Your Own” Estimates for Loss	Calculations, Exhibit 1
Direct Estimates for Loss	Calculations, Exhibit 2
“Write Your Own” Estimates for ALAE	Calculations, Exhibit 3
Direct Estimates for ALAE	Calculations, Exhibit 4
Summary of Loss Development Factors	Calculations, Exhibit 5
“Write Your Own” Paid ALAE Development Triangle	Calculations, Exhibit 6
“Write Your Own” Paid/Paid ALAE Development Triangle	Calculations, Exhibit 7
Direct Paid ALAE Development Triangle	Calculations, Exhibit 8
Direct Paid/Paid ALAE Development Triangle	Calculations, Exhibit 9
Bornhuetter Ferguson Factor Derivation	Calculations, Exhibit 10

SUPERSTORM SANDY

Sandy ICC Estimates	Sandy ICC Estimate
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2005 STORMS

Summary Calculations	2005 Storms, Exhibit 1
ICC Estimates	2005 Storms, Exhibit 2

STATEMENT OF ACTUARIAL OPINION

National Flood Insurance Program

IDENTIFICATION

I, Kay Kufera, am associated with the firm of Kufera Consulting, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards, and I am a Fellow of the Casualty Actuarial Society. I was appointed on April 30, 2014, by the Project Director of NFIP Legacy Systems Services, to render this opinion.

SCOPE

I have examined the reserves listed in Exhibit A, which are to be utilized in the Final Audited Annual Statement of the National Flood Insurance Program (NFIP) as of September 30, 2014.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data submitted by the Write Your Own (“WYO”) companies and the NFIP Servicing Agent for the Direct program. This data was provided by Demetris Brown, Project Director, NFIP Legacy Systems Services. I evaluated the data for reasonableness and consistency. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

The items listed in Exhibit A, on which I am expressing an opinion, reflect the Loss Reserve Disclosure items (3 through 8) in Exhibit B. The NFIP, while operating as an insurance operation, does not maintain the same financial structure as a typical insurer, and is not subject to oversight by the NAIC. In light of this, many accounts which would normally be reviewed do not exist. Where “N/A” appears below, such accounts are not applicable to the NFIP and have not been reviewed.

OPINION

Recognizing the inherent variability of conditions affecting future claims payments and the possible risk of reporting error noted above, in my opinion, the amounts carried separately for losses and expenses in Exhibit A on account of the items identified:

- A. Are consistent with reserves computed in accordance with accepted actuarial reserving standards and principles, and
- B. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of NFIP under the terms of its contracts and agreements.

RELEVANT COMMENTS**RISK OF MATERIAL ADVERSE DEVIATION**

The National Flood Insurance Program writes business which is subject to catastrophic weather events. Early in fiscal year 2013 (the end of October, 2012) the NFIP experienced significant flooding as Superstorm Sandy impacted the East Coast. The outstanding ICC reserves for this storm remain the largest contributor to the overall necessary reserve at fiscal year-end 2014, and carry a significant amount of uncertainty. There was also some flooding late in the fiscal year, from floods in the Southwest. The reserves carried by the NFIP at September 2014 are based on TRRP data through August 2014, with projections through September. I have not identified any other major risk factors. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the NFIP's reserves.

In last year's opinion, we based our threshold for the risk of material adverse deviation on a percentage of annual earned premium for the NFIP. For many opinions which we write for companies belonging to the NAIC (National Association of Insurance Companies), the threshold for the risk of material adverse deviation is based on company surplus, which is inapplicable in this case. I believe that a reasonable substitute for this measure is 10% of the annual earned premium for the NFIP, which yields a materiality threshold of approximately \$350,000,000. Absent a flooding event of an extremely large magnitude (requiring held reserves in the billions of dollars, and a materiality threshold more closely tied to the loss and loss adjustment reserve total), this basis for the materiality standard is appropriate. The \$350,000,000 is a materiality threshold similar in dollar value to the one used for the past three years' analyses. Based on this threshold, I do not believe that a risk of material adverse deviation exists for this reserve.

OTHER DISCLOSURES IN EXHIBIT B

The reserves shown in Exhibit A, on which I am expressing an Opinion, have not been explicitly reduced due to the anticipation of receiving salvage, subrogation or other recoveries. However, to the extent that historical paid losses reflect such recoveries, anticipated salvage, subrogation and other recoveries are implicitly reflected.

Reserves have been discounted for the time value of money.

I have reviewed the NFIP's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since reported claim activity is zero and the NFIP writes only flood policies.

The NFIP does not carry reserves for extended loss and expenses.

REINSURANCE

It is my understanding that there are no reinsurance contracts, and I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance. For the same reason, reinsurance collectability does not appear to be an issue.

METHODS AND ASSUMPTIONS

This is the tenth year I have rendered the opinion for the National Flood Insurance Program. The methods used in calculating the required reserve employ standard loss reserving procedures where appropriate, and are similar to those used last year. The reserve calculations are fully documented in the report accompanying this opinion.

ACTUARIAL REPORT

An actuarial report, including underlying workpapers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the NFIP to be retained for a period of seven years in the administrative offices of the NFIP.



Kay Kufera, FCAS, MAAA
Kufera Consulting, Inc.
1 Grace Ridge Ct.
Monkton, MD 21111
(410) 329-6672
October 30, 2014

Exhibit A: SCOPE

<u>Loss Reserves:</u>	<u>Amount</u>
A. Reserve for Unpaid Losses	\$562,300,000
B. Reserve for Unpaid Loss Adjustment Expenses	\$34,092,000
C. Reserve for Unpaid Losses–Direct and Assumed	\$562,300,000
D. Reserve for Unpaid Loss Adjustment Expense–Direct and Assumed	\$34,092,000

Please note that Reserves for Unpaid Losses and Loss Adjustment Expenses are discounted again this year, detail is shown in Exhibit B, Item #9.1.

E. Retroactive Reinsurance Reserve Assumed	N/A
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0

<u>Premium Reserves:</u>	<u>Amount</u>
G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	N/A
H. Reserve for Net Unearned Premiums for Long Duration Contracts	N/A
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0

Exhibit B: DISCLOSURES

- | | | |
|---|----------------|----------------------|
| 1. Name of the Appointed Actuary | Kufera, Kay E. | |
| 2. The Appointed Actuary's Relationship to the NFIP.
Enter E or C based upon the following:
E if an Employee of the NFIP
C if a Consultant | | C |
| 3. The Appointed Actuary has the following designation:
F if a Fellow of the Casualty Actuarial Society (FCAS)
A if an Associate of the Casualty Actuarial Society (ACAS)
M if not a member of the Casualty Actuarial Society, but a member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter.
O for Other | | F |
| 4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following:
R if Reasonable
I if Inadequate or Deficient Provision
E if Excessive or Redundant Provision
Q if Qualified. Use Q when part of the OPINION is Qualified.
N if No Opinion | | R |
| 5. Materiality Standard expressed in US dollars (Used to Answer Question #6) | | <u>\$350,000,000</u> |
| 6. Are there significant risks that could result in Material Adverse Deviation? | No [X] | |
| 7. Statutory Surplus | | <u>N/A</u> |
| 8. Anticipated net salvage and subrogation included as a reduction to loss reserves | | <u>\$0</u> |
| 9. Discount included as a reduction to loss reserves and loss expense reserves | | |
| 9.1 Nontabular Discount | | <u>\$6,362,000</u> |
| 9.2 Tabular Discount | | <u>\$0</u> |
| 10. The net reserves for losses and expenses for the NFIP's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses | | <u>N/A</u> |

11. The net reserves for losses and loss adjustment expenses that the NFIP carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses Loss Adjustment Expenses lines. *	
11.1 Asbestos	<u>\$0</u>
11.2. Environmental	<u>\$0</u>
12. The total claims made extended loss and expense reserve (Schedule P Interrogatories).	
12.1 Amount reported as loss reserves	<u>N/A</u>
12.2 Amount reported as unearned premium reserves	<u>N/A</u>
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	
	<u>\$0</u>

Section I INTRODUCTION

Computer Services Corporation (CSC), as the NFIP Legacy Systems Services, has been charged by the National Flood Insurance Program (NFIP) to conduct an actuarial analysis of the required loss and loss adjustment expense reserves for the NFIP as of its fiscal year end September 30, 2014. This analysis includes an Actuarial Statement of Opinion in accordance, to the extent possible, with the 2013 NAIC Property and Casualty Annual Statement requirements. This report is a summary of the analysis and findings. This report, along with the associated exhibits and computer-readable material, should be retained by the NFIP for seven years.

Approximately one third of the reserves projected for the September 2014 reserve need stem from remaining reserves needed for Superstorm Sandy, which occurred at the end of October, 2012. The outstanding reserve need for Superstorm Sandy is projected almost entirely for increased cost of compliance (ICC) claims. There is significant uncertainty at this time regarding the amount of ICC liability needed for Superstorm Sandy. In addition, although flood insurance is generally a relatively short-tailed line of insurance, roughly 6% of the reserve continues to be held to pay for ICC claims for Hurricane Katrina and other 2005 storms.

Appropriate reserve levels for NFIP were determined by analyzing the most recent twenty month period through August, 2014, and then projecting that analysis forward through September, 2014. The reserves selected in this report were calculated using various standard reserving methodologies applied to the system (TRRP) data, and the selected ultimate loss is a value within the range produced by these estimates. Due to the magnitude and unusual nature of Superstorm Sandy, and hurricanes Katrina, Rita and Wilma, a separate estimation procedure for the estimated ICC claims, which comprise the remaining reserve, was calculated separately. Quick claims data was used to project September, 2014 accident month estimates.

In the initial projection of data, appropriate reserve levels for NFIP were determined by analyzing the most recent twenty month period through August, 2014. Indicated reserve levels for losses for the large events and the “all other” months were initially determined using various analytical approaches. These approaches are described herein, by category. The methodology for calculating the estimated reserve need is the same as that followed historically in setting reserves for NFIP, wherein various standard reserving

methodologies provide estimates of ultimate loss values and the selected ultimate loss is a value within the range produced by the use of these approaches.

The Allocated Loss Adjustment Expense reserve and the Unallocated Loss Adjustment Expense reserve were calculated using the same methodology as used historically.

Reserve levels for loss adjustment expenses categorized as Allocated Loss Adjustment Expense (ALAE) were analyzed in two parts: first, the standard ALAE expenses were estimated using two techniques: paid expense development and the development of the historical ratios of paid ALAE-to-paid loss ratios. The selected ultimate standard ALAE expense and resulting indicated reserve is a value within the range produced by the use of these approaches. Secondly, in addition to the standard ALAE calculations, a reserve has been set for the “Special” ALAE expenses which NFIP incurs along with the ALAE calculated above. While the standard ALAE is paid according to schedules based on size of loss, there is also the need to reserve for ALAE expenses which are paid out in addition to scheduled ALAE costs. These expenses have traditionally been referred to as “Special” ALAE, and a reserve for them has been calculated which is based on their historical relationship to the standard ALAE expenses and the ultimate selection for the standard ALAE.

While allocated loss adjustment expense was calculated within the actual reserve calculations, ULAE is calculated later, using the contractual 1.5% of loss-only IBNR for Write-Your-Own loss reserves. ULAE is paid contractually in two segments. The first segment is paid as premium is written, as 0.9% of the written premium level. No reserve is required for this segment. The second segment is a contractual 1.5% of losses incurred, necessitating the reserve based on the IBNR loss reserve. As done in prior reserve calculations (based on contract provisions), no ULAE reserve is calculated for direct NFIP loss reserves, since no ULAE is paid for the direct servicing company functions.

The reserve indications in this report were computed in accordance with commonly applied actuarial principles. In our opinion, the selected ultimate amounts and resulting indicated reserves are reasonable estimates of the ultimate losses and loss adjustment expenses. Estimates for loss and loss expenses covered by flood contracts are by their nature subject to significant uncertainty. Actual results may vary from those developed in this report. We made no review of the assets of the NFIP and are expressing no opinion on the availability of funds to discharge these obligations when due.

In preparing this report, I relied upon data submitted by Demetris Brown, Project Director, NFIP Legacy Systems Services. I evaluated the data for reasonableness and consistency. While I checked the data for reasonableness, I bear no responsibility for its accuracy, or for any error or omission in this report which stems from inaccuracy in data reported to us.

Section II of this report is an Executive Summary presenting our principal conclusions and recommendations.

Section III describes the methodologies leading to the conclusions and presents the results of the actuarial valuations.

Following the report are exhibits and workpapers that document the calculations of the needed reserves.

This report is provided for the internal use of the Federal Emergency Management Agency (FEMA), the National Flood Insurance Program, its statistical agents and its auditors only. This report, along with the associated exhibits and computer-readable material, should be retained by the NFIP or its statistical agent for seven years. Any other use or distribution is not authorized without the prior written consent of CSC or the NFIP. In any instance in which the report is provided, it must be supplied in full including exhibits. I am available to answer questions regarding this report.

Respectfully submitted,



Kay E. Kufera, FCAS, MAAA

Kufera Consulting, Inc.

October 30, 2014

Section II

EXECUTIVE SUMMARY

INDICATED LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Estimates of reserve levels are shown in Summary Exhibit 1 of the attached exhibits. It is our understanding that the amounts carried by the NFIP will be identical to those selected in this analysis. Therefore, the overall amounts carried by the NFIP fall within the range of reasonable estimates generated by this reserve review. The indicated amounts are those estimated to be a full and sufficient reserve for future loss and loss expense liabilities.

The calculation of indicated reserve levels and selection of recommended reserve amounts are discussed in Section III.

OTHER RELEVANT COMMENTS

The methods used in calculating the required reserve employ standard and accepted loss reserving techniques, where appropriate. Other reasonable approaches based on actuarial principles have been applied as necessary and fully documented.

RISK OF MATERIAL ADVERSE DEVIATION

The National Flood Insurance Program writes business which is subject to catastrophic weather events. Early in fiscal year 2013 (the end of October, 2012) the NFIP experienced significant flooding as Superstorm Sandy impacted the East Coast. Although it has been 23 months since this storm made landfall, the outstanding reserves for Sandy remain the largest contributor to the overall necessary reserve at fiscal year-end 2013. There was some flooding late in fiscal year 2014, from floods in the Southwest, but these floods do not appear to be producing substantial reserve needs. The reserves carried by the NFIP at September 2013 are based on TRRP data through August 2013, with projections through September. I have not identified any other major risk factors. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the NFIP's reserves.

In last year's opinion, we based our threshold for the risk of material adverse deviation on a percentage of annual earned premium for the NFIP. For many opinions which we write for companies belonging to the NAIC (National Association of Insurance Companies), the threshold for the risk of material adverse deviation is based on company surplus, which is inapplicable in this case. I believe that a reasonable substitute for this measure

is 10% of the annual earned premium for the NFIP, which yields a materiality threshold of approximately \$350,000,000. Absent a flooding event of an extremely large magnitude (requiring held reserves in the billions of dollars, and a materiality threshold more closely tied to the loss and loss adjustment reserve total), this basis for the materiality standard is appropriate. The \$350,000,000 is a materiality threshold similar in dollar value to the one used the past three years' analyses. Based on this threshold, I do not believe that a risk of material adverse deviation exists for this reserve.

SALVAGE AND SUBROGATION

The reserves calculated in this analysis have not been explicitly reduced due to the anticipation of receiving Salvage or Subrogation. However, to the extent that historical paid losses reflect such recoveries, anticipated salvage and subrogation is implicitly reflected.

ADDITIONAL ACTUARIAL OPINION DISCLOSURES

Reserves are discounted for the time value of money, on a non-tabular basis.

We have reviewed the NFIP's exposure to asbestos and environmental claims. In our opinion, there is only a remote chance of material liability, since reported claim activity is zero and the NFIP writes only flood insurance policies.

The NFIP does not carry reserves for extended loss and expenses, nor does it have exposure to long duration contracts.

As is the case for any insurance product, estimates for loss and loss expense reserves are subject to significant uncertainty. This is particularly true for flood insurance. While the reserve indications in this Statement are actuarially reasonable, actual results will vary from those developed in my reserve analysis, and there can be no guarantee that the calculated reserve amounts will be adequate to discharge the ultimate obligations of the NFIP for the items indicated.

We made no review of the assets of the NFIP and are expressing no opinion on the availability of funds to discharge these obligations when due.

Section III

ACTUARIAL ANALYSIS

The following discussion is based on the actuarial analysis performed using August TRRP data, projected forward through September.

LOSS RESERVES

The estimated loss reserve levels for the most recent twenty accident months (the “standard” historical period), have been determined using several standard actuarial approaches, including paid and incurred loss development and Bornhuetter-Ferguson calculations. Ultimate expected losses and resultant indicated reserves were calculated separately for “write your own” (WYO) and direct business. All methods will be explained in further detail. The selected indicated reserve is a value within the range produced by the use of the various approaches. In the loss reserve calculations, it is assumed that losses (other than the remaining ICC claims stemming from Superstorm Sandy and the large 2005 events) which occurred prior to January 2013 are adequately reserved with existing case reserves. The reserves calculated for the remaining ICC claims from Superstorm Sandy and the large 2005 events will be discussed in detail later in this report.

The **paid loss development approach** projects losses to an ultimate level using historical paid losses as the basis for estimated future payments. This is a standard method in which the paid losses from a given accident period are compiled at specified intervals since the beginning of the accident period. An historical pattern is determined, and it is assumed that this pattern will continue into the future. From this historical pattern, “link ratios” or “age-to-age factors” are calculated as ratios of losses evaluated at consecutive intervals of one month. The cumulative multiplication of these link factors up to each maturity level yields cumulative loss development factors. The loss development factors for NFIP were calculated for each of the “Write your Own” and “Direct” programs using three distinct sets of historical data, as follows: (1) months in which no medium or large events occurred, (2) months in which medium size events occurred, and (3) months in which large events occurred. Medium size events are defined as those which have total losses from \$100 million to \$400 million, while large events are defined as those which have total losses above \$400 million. The historical experience from these distinct data sets show recognizable differences in aging, indicating that different development factors should be applied to each group. The factors used are shown in the exhibit labeled “Calculations, Exhibit 5”. The derivation of the factors uses a great quantity of historical

information and is available on request. Paid losses on months that are not yet fully developed are then multiplied by these cumulative loss development factors, as appropriate, to arrive at the ultimate paid losses. The required reserves before discounting are the difference between the amounts paid to date and the ultimate losses.

The **incurred loss development method** is analogous to the paid loss development method. The only difference is that the historical data analyzed are incurred, or reported, losses (paid loss plus case reserves) rather than paid losses only. The incurred losses from a given accident period are compiled at specified intervals since the beginning of the accident period. An historical pattern is determined, and it is assumed that this pattern will continue into the future. From this historical pattern, “link ratios” or “age-to-age factors” are calculated as ratios of losses evaluated at consecutive intervals of one month. The cumulative multiplication of these link factors up to each maturity level yields cumulative loss development factors. Again, for both the “Write your Own” and “Direct” programs, the loss development factors for NFIP were calculated using three distinct sets of historical data, as follows: (1) months in which no medium or large events occurred, (2) months in which medium size events occurred, and (3) months in which large events occurred. Again, the factors used are shown in the exhibit labeled “Calculations, Exhibit 5”. The derivation of the factors uses a great quantity of historical information and is available on request. Incurred losses on months that are not yet fully developed are then multiplied by these cumulative loss development factors, as appropriate, to arrive at the ultimate incurred losses. The required reserves before discounting are the difference between the amounts paid to date and the ultimate losses.

Losses were also analyzed using a standard actuarial technique known as **the Bornhuetter-Ferguson (BF) method**. This method was applied separately to paid losses and to incurred losses. The BF method gives some weight to the actual emerged losses to date and it also gives some weight to an assumed, or a priori, expected loss ratio. The a priori expected loss ratio is selected based on historical loss experience; specifically, we calculated averages of several months of fully developed losses compared to corresponding months’ earned premiums. For the year-end reserve calculations, the months used in the average calculation include ultimate monthly estimated pure premium ratios from 2009 through 2013, excluding losses from the first quarter of each year, which are historically lower than average, and months during which catastrophes occurred. Large loss months are generally also excluded because this factor is being used mainly to estimate ultimate losses for months for which it is already known that no catastrophes occurred. This analysis is shown in the exhibit labeled “Calculations, Exhibit 10”.

The **Paid BF method** uses paid development to determine the percent of ultimate losses not yet paid. The percent of unpaid losses is multiplied by the expected ultimate losses and this amount is added to the current paid losses to yield an estimated ultimate loss amount for the year. The required reserves before discounting are the difference between the ultimate losses and the losses paid to date. Similarly, the **Incurred BF method** uses incurred development to determine the percent of ultimate losses not yet emerged. The percent of unemerged losses is multiplied by the expected ultimate losses and this amount is added to the current emerged losses to yield an estimated ultimate loss amount for the year. The required reserves before discounting are the difference between the ultimate losses and the amounts paid to date.

While the BF method does require an assumption about an expected loss ratio, it has the advantage of providing more stable results, especially for data in which loss development patterns tend to be more volatile. The loss development patterns for NFIP are much less stable for the most recent months.

Calculations of direct and assumed expected ultimate losses using these approaches are shown in Calculations, Exhibits 1 and 2. In addition, as appropriate, professional judgment has been used to determine the reserves.

In addition to these calculations, we use information derived from the “quick claim” system to project losses for accident month September 2014, because information for that month is not available in the TRRP system when initial estimates are calculated. Ultimate loss projections are calculated from the “quick claim” system in two ways. One method is to use the incurred loss development approach described above, and another is to project the ultimate number of claims using historical claim number development factors, and apply an average claim size to the projected total number of claims. Subsequent analysis shows that the quick claims selection used yielded an overly conservative estimate for the month of September. However, significant variability is expected in this estimate, due to its immaturity and the fact that the September flooding occurred in the second half of the month. We expect late reporting for this event.

Loss reserves are summarized by time period in Summary Exhibit 2.

ICC RESERVES – SUPERSTORM SANDY

We believe that the source of remaining reserve uncertainty for Superstorm Sandy stems from the expected outstanding increased cost of compliance (ICC) claims. While we are

using the emergence of ICC claims from Katrina as a basis for developing these claims, several factors add to the uncertainty involved in reserving these potential claims:

- Geographic location – These claims are in a completely different part of the country than those from Katrina. This may cause different levels of work efficiency, costs of repair, timing of claims or political involvement.
- Date of data availability – We began to gather specific statistical information for Katrina ICC claims 29 months after the storm hit. We began to track ICC claims for Sandy much earlier, at 20 months, but this could potentially lead to higher claim development for the Sandy claims than we recorded with Katrina.
- Availability of extensions – Katrina insureds had several coverage extensions given to them, greatly extending the time period during which claims could be made. We don't know if these extensions will be made available to Sandy insureds.
- Other means of relief – It is possible that policyholders suffering loss from Sandy will be offered other types of governmental financial relief and will not file ICC claims if they receive these other forms of relief.

All of these items increase the uncertainty surrounding the estimate for the ICC claims for Sandy at this early stage in their development. We will continue to monitor the emergence of these claims.

ICC RESERVES – LARGE 2005 EVENTS

The source of remaining reserve uncertainty for the large 2005 events stems from the expected outstanding increased cost of compliance (ICC) claims. These expenses are estimated separately. While typically, substantially all ICC claims from an event this mature should be paid by now, the claims continue to trickle into the system. While we list above some of the reasons that these costs are very difficult to predict, we believe that the remaining ICC claims for the 2005 storms no longer constitute a large measure of uncertainty in the overall reserve. We continue to monitor activity on these claims, and have selected appropriate estimates for the ultimate number of claims and projected average claim size. The selected ICC amounts by storm have been chosen judgmentally after reviewing claims experience to date for each storm and the potential for future claims activity. Calculations of the ICC projections are shown in “2005 Storms, Exhibit 2.”

ALAE RESERVES (excluding “SPECIAL” ALAE)

The ultimate standard ALAE (excluding “Special” ALAE as described above, hereafter referred to as “ALAE”) estimates and resultant indicated ALAE reserves were developed using a paid ALAE development method, in an exactly analogous way to the like

methods employed to estimate losses. Additionally, one other estimate was calculated. This was the development of ratios of paid ALAE dollars to paid loss dollars over time; this “paid to paid development” method is analogous to the loss development approach described above. For the “prior” reserve (Superstorm Sandy and the 2005 storms ICC reserve) loss adjustment expense reserves are calculated by applying the ratio of paid ALAE-to-date to losses to the loss reserve amount.

The calculations and supporting exhibits for the calculation of the ALAE for the standard reserve period are shown in the attached exhibits under the heading of “Calculations, Exhibits 3 and 4”, as well as “Calculations, Exhibits 6 through 9.”, The calculations for the 2005 Storms are shown in “2005 Storms, Exhibit 1”.

“SPECIAL” ALAE RESERVES

In addition to the standard ALAE calculations, a reserve has been set for the “Special” ALAE expenses which the NFIP incurs along with the ALAE calculated above. While the standard ALAE is paid according to schedules based on size of loss, there is also the need to reserve for ALAE expenses which are paid out in addition to scheduled ALAE costs. These expenses have traditionally been referred to as “Special” ALAE. Ultimate “Special” ALAE has been estimated by multiplying estimated ultimate ALAE by a factor which is based on the historical relationship of these expenses to the standard ALAE expenses. Reserves are then calculated as the difference between the ultimate “Special” ALAE estimate and amounts paid to date for these expenses. These reserves are shown in Summary Exhibit 1.

UNALLOCATED LOSS ADJUSTMENT EXPENSE RESERVES

The reserve estimate for ULAE associated with WYO business is 1.5% of the IBNR reserves. This percentage is based on the agreement that FEMA has made with the WYO companies. The fact that 1.5% only applies to the IBNR takes into account that WYO companies are paid at the time a case reserve has been made or a loss has been paid. ULAE is paid in two segments. The first segment is paid as premium is written, as 0.9% of the written premium level. No reserve is required for this segment. The second segment is a contractual 1.5% of losses incurred, necessitating the reserve based on the IBNR loss reserve. As done in prior reserve calculations (based on contract provisions), no ULAE reserve is calculated for direct NFIP loss reserves, since no ULAE is paid for the direct servicing NFIP functions. These reserve amounts are shown in Summary Exhibit 1.

ACTUARIAL CALCULATIONS - SUMMARY

The final indicated discounted reserves are \$596,392,000. As discussed in the Executive Summary, the indicated amounts are the same as the amount of reserves carried at fiscal year-end September 30, 2014 by NFIP. Carried discounted reserves for NFIP at fiscal year-end September 30, 2014 are \$596,392,000. NFIP's overall carried reserve amounts fall within the range of reasonable estimates.

Current Estimate of Fiscal Year-end 2014 Reserve Requirement

projected from August, 2014 data

<i>Discounted Reserve Estimates</i>	WYO	DIRECT	TOTAL
LOSS RESERVE ESTIMATES	\$472,526,041	\$89,774,275	\$562,300,316
LOSS ADJUSTMENT EXPENSE RESERVE ESTIMATES	<u>\$28,591,357</u>	<u>\$5,500,806</u>	<u>\$34,092,163</u>
TOTAL RESERVE ESTIMATES	\$501,117,398	\$95,275,082	\$596,392,479

<i>Undiscounted Reserve Estimates</i>	WYO	DIRECT	TOTAL
LOSS RESERVE ESTIMATES			
(1) Case Reserves	\$219,511,314	\$27,806,308	\$247,317,623
(2) <u>IBNR Loss Reserves</u>	<u>\$258,055,206</u>	<u>\$62,925,597</u>	<u>\$320,980,803</u>
(3) Total Loss Reserves	\$477,566,520	\$90,731,906	\$568,298,426
LOSS ADJUSTMENT EXPENSE RESERVE ESTIMATES			
(4) Total ALAE (Ex Special)	\$22,595,370	\$4,920,951	\$27,516,322
(5) Special ALAE	\$2,430,145	\$638,532	\$3,068,677
(6) <u>ULAE: IBNR</u>	<u>\$3,870,828</u>	<u>N/A</u>	<u>\$3,870,828</u>
(7) Total LAE	\$28,896,343	\$5,559,484	\$34,455,827
LOSS and LOSS ADJUSTMENT EXPENSE RESERVE ESTIMATES			
(8) Total Loss & LAE Reserves	\$506,462,863	\$96,291,390	\$602,754,253

WYO

Estimate of Loss Reserves as of September, 2014 (Under Super Accelerated Reporting)
[\$00,000's Omitted]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Accident Month	Paid Losses a/o 8/31/14	Incremental Loss Development Factor	Projected Paid Losses a/o 9/30/14	Selected Ultimate Loss	Projected Case Reserve Estimate*	Projected IBNR Reserve [(7)-(5)]	Indicated Total Loss Reserve [(4)-(3)]
Prior					1,036	1,317	2,353
Jan 13	133	1.003	133	134	0	0	1
Feb 13	116	1.001	116	117	1	0	1
Mar 13	35	1.001	35	35	0	0	0
Apr 13	829	1.001	830	846	11	5	16
May 13	265	1.002	266	270	4	0	4
Jun 13	437	1.002	438	444	4	2	6
Jul 13	423	1.002	424	428	0	4	4
Aug 13	258	1.004	259	263	3	1	4
Sep 13	557	1.005	560	569	4	5	9
Oct 13	432	1.004	434	443	4	5	9
Nov 13	5	1.010	5	6	1	0	1
Dec 13	64	1.008	64	68	3	0	4
Jan 14	71	1.011	72	74	0	2	2
Feb 14	24	1.015	24	26	2	0	2
Mar 14	40	1.032	41	44	1	1	3
Apr 14	1,407	1.044	1,469	1,604	37	98	135
May 14	254	1.076	273	300	9	17	27
Jun 14	150	1.193	179	215	23	13	36
Jul 14	81	1.990	161	198	8	29	37
Aug 14	27	6.398	173	564	212	180	392
September 2014**	0		67	1,797	831	899	1,730
Total	5,608		6,023	8,445	2,195	2,581	4,776

Direct

Estimate of Loss Reserves as of September, 2014 (Under Super Accelerated Reporting)
[\$00,000's Omitted]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Accident Month	Paid Losses a/o 8/31/14	Incremental Loss Development Factor	Projected Paid Losses a/o 9/30/14	Selected Ultimate Loss	Projected Case Reserve Estimate*	Projected IBNR Reserve [(7)-(5)]	Indicated Total Loss Reserve [(4)-(3)]
Prior					5	150	155
Jan-13	61	1.003	61	62	0	1	1
Feb-13	69	1.002	69	70	0	1	1
Mar-13	18	1.002	18	18	0	0	0
Apr-13	428	1.001	428	435	0	6	7
May-13	97	1.002	97	99	0	2	2
Jun-13	150	1.001	150	155	1	3	5
Jul-13	66	1.006	66	68	0	2	2
Aug-13	54	1.003	54	56	0	2	2
Sep-13	197	1.008	199	206	0	7	7
Oct-13	123	1.005	124	129	0	5	5
Nov-13	3	1.007	3	3	0	0	0
Dec-13	27	1.008	27	29	0	2	2
Jan-14	16	1.011	16	17	0	1	1
Feb-14	9	1.024	9	10	0	1	1
Mar-14	22	1.024	23	25	0	2	2
Apr-14	346	1.074	372	411	0	39	39
May-14	99	1.118	111	133	0	22	22
Jun-14	57	1.439	82	103	0	21	21
Jul-14	27	3.187	86	87	0	1	1
Aug-14	5	6.588	33	205	54	118	172
September 2014**	0		7	467	216	244	461
Total	1,874		2,035	2,787	278	629	907

* The projected case reserve is estimated by developing the "paid plus case" amount based on development factors from the relevant triangles, and subtracting the projected paid amounts.

** Selected ultimate losses are based on preliminary data regarding the September 2014 flooding events.

WYO					
Estimate of ALAE Reserves as of September, 2014 (Under Super Accelerated Reporting)					
[\$000's Omitted]					
	(1)	(2)	(3)	(4)	(5)
Accident Month	Paid ALAE a/o 8/31/14	Incremental Paid Loss Development Factor	Projected Paid ALAE a/o 9/30/14 [(1) x (2)]	Selected Ultimate ALAE	Indicated Total ALAE Reserve [(4)-(3)]
Prior					6,229
Dec 12	926	1.000	926	926	0
Jan 13	798	1.002	800	804	4
Feb 13	280	1.001	280	281	1
Mar 13	5,038	1.000	5,038	5,106	68
Apr 13	1,739	1.003	1,744	1,766	22
May 13	2,781	1.002	2,787	2,822	35
Jun 13	2,761	1.001	2,764	2,785	21
Jul 13	1,441	1.002	1,444	1,466	22
Aug 13	2,757	1.000	2,757	2,788	31
Sep 13	1,863	1.005	1,872	1,899	27
Oct 13	64	1.011	65	71	6
Nov 13	459	1.003	460	479	19
Dec 13	499	1.010	504	518	14
Jan 14	234	1.018	238	252	14
Feb 14	332	1.022	339	362	23
Mar 14	6,470	1.037	6,709	7,340	631
Apr 14	1,650	1.069	1,764	1,969	205
May 14	1,076	1.142	1,229	1,648	419
Jun 14	721	1.747	1,260	2,009	749
Jul 14	221	8.506	1,880	3,869	1,989
September 2014*	0		466	12,532	12,066
Total (Average)	32,110	1.086	35,326	51,693	22,595

Direct					
Estimate of ALAE Reserves as of September, 2014 (Under Super Accelerated Reporting)					
[\$000's Omitted]					
	(1)	(2)	(3)	(4)	(5)
Accident Month	Paid ALAE a/o 8/31/14	Incremental Paid Loss Development Factor	Projected Paid ALAE a/o 9/30/14 [(1) x (2)]	Selected Ultimate ALAE	Indicated Total ALAE Reserve [(4)-(3)]
Prior					444
Dec-12	351	1.000	351	355	4
Jan-13	399	1.000	399	403	4
Feb-13	134	1.000	134	134	0
Mar-13	2,483	1.006	2,498	2,509	11
Apr-13	578	1.009	583	590	7
May-13	841	1.001	842	860	18
Jun-13	497	1.000	497	508	11
Jul-13	335	1.002	336	344	8
Aug-13	979	1.003	982	1,015	33
Sep-13	530	1.001	531	548	17
Oct-13	26	1.002	26	26	0
Nov-13	175	1.005	176	185	9
Dec-13	112	1.011	113	119	6
Jan-14	76	1.010	77	83	6
Feb-14	114	1.012	115	125	10
Mar-14	1,538	1.024	1,575	1,754	179
Apr-14	578	1.044	603	721	118
May-14	353	1.142	403	502	99
Jun-14	203	1.718	349	635	286
Jul-14	41	10.257	421	1,204	783
September 2014*	0		43	2,912	2,869
Total (Average)	10,343	1.065	11,054	15,531	4,921

Ranges for Flood Plan Reserve Estimate - Year-end 2014

ranges are undiscounted

Loss	Pd + Case BF	Inc Dev.	Pd. Dev.	Selected
Prior	235,304,882	235,304,882	235,304,882	235,304,882
Jan-13	92,773	18,707	114,111	55,740
Feb-13	198,796	119,322	116,764	118,043
Mar-13	90,698	4,801	39,718	22,260
Apr-13	1,650,855	1,854,261	1,288,090	1,571,175
May-13	549,324	459,279	294,169	400,000
Jun-13	556,261	511,521	654,416	582,969
Jul-13	161,335	138,820	733,678	436,249
Aug-13	403,547	340,411	506,823	423,617
Sep-13	560,704	524,726	1,296,418	910,572
Oct-13	694,496	553,995	1,230,863	892,429
Nov-13	657,506	105,130	21,621	100,000
Dec-13	1,096,339	375,502	327,317	351,409
Jan-14	797,298	83,835	342,497	213,166
Feb-14	912,863	230,580	188,343	209,462
Mar-14	1,474,111	183,858	352,084	267,971
Apr-14	5,735,723	11,208,591	15,795,837	13,502,214
May-14	2,298,795	1,461,380	4,234,514	2,664,896
Jun-14	3,753,571	2,750,864	4,314,218	3,606,218
Jul-14	2,207,934	1,163,342	7,770,981	3,714,086
Aug-14	29,561,454	21,981,485	55,302,963	39,175,792
Sep-14	173,043,371	64,068,772	240,276,466	173,043,371
WYO	461,802,637	343,444,064	570,506,776	477,566,520
Prior	15,538,322	15,538,322	15,538,322	15,538,322
Jan-13	320,812	100,000	100,000	100,000
Feb-13	354,264	100,000	100,000	100,000
Mar-13	450,811	-	-	-
Apr-13	349,689	600,000	700,000	650,000
May-13	586,370	200,000	200,000	200,000
Jun-13	663,833	500,000	400,000	450,000
Jul-13	722,877	200,000	200,000	200,000
Aug-13	831,838	200,000	200,000	200,000
Sep-13	798,674	600,000	700,000	650,000
Oct-13	1,031,887	400,000	500,000	450,000
Nov-13	1,255,714	-	-	-
Dec-13	1,397,707	200,000	200,000	200,000
Jan-14	1,588,351	100,000	100,000	100,000
Feb-14	1,810,938	100,000	100,000	100,000
Mar-14	2,271,631	100,000	200,000	150,000
Apr-14	983,566	2,800,000	5,000,000	3,900,000
May-14	3,335,389	1,400,000	2,000,000	2,245,130
Jun-14	3,446,154	300,000	2,700,000	2,148,718
Jul-14	(3,101,405)	(4,300,000)	7,800,000	132,865
Aug-14	9,671,683	5,906,152	30,606,152	17,161,204
Sep-14	46,055,667	27,530,806	47,145,409	46,055,667
Direct	90,364,772	52,575,281	114,489,884	90,731,906
ALAE				
	Pd Dev.	Pd Dev.	Pd/Pd Ratio	Selected
WYO	22,582,957	22,582,957	22,524,134	22,595,370
Direct	4,219,271	4,219,271	5,126,291	4,920,951
Special ALAE				
	Low	Low	High	Selected
WYO	2,428,810	2,428,810	2,422,483	2,430,145
Direct	547,484	547,484	665,177	638,532
ULAE				
	3,634,370	1,858,991	5,264,932	3,870,828
Total	585,580,300	427,656,858	720,999,678	602,754,253

The amounts shown in the total line represent a reasonable range of estimates for the total undiscounted reserve. The selected reserve (\$602,754,253) falls within this range.

WYO
Estimate of Ultimate Loss as of 08/31/14
[\$00,000's Omitted]

	(1)	Paid Development Method			Paid+Case Development Method			Paid Loss Bornhuetter-Ferguson Method					Paid+Case Loss Bornhuetter-Ferguson Method						(20) Selected Ultimate Loss
		(2)	(3) Factor to Ultimate	(4) Estimated Ult. Loss (2)x(3)	(5)	(6) Factor to Ultimate	(7) Estimated Ult. Loss (5)x(6)	(8) Expected Pure Prem.	(9) Estimated Ult. Loss	(10) Reserve Factor	(11) Indicated Reserve	(12) Expected Paid Loss	(13) Indicated Ult. Loss	(14) Expected Pure Prem.	(15) Estimated Ult. Loss	(16) IBNR Factor	(17) Indicated IBNR	(18) Expected Paid+Case Loss	
Accident Month	Earned Premium	Paid Loss			Paid + Case														
Prior																			
Jan-13	2,501	133	1.009	134	133	1.001	133	0.264	660	0.009	6	655	139	0.264	660	0.001	1	660	134
Feb-13	2,269	116	1.010	117	117	1.002	117	0.264	599	0.010	6	593	122	0.264	599	0.002	1	598	118
Mar-13	2,507	35	1.011	35	35	1.001	35	0.264	662	0.011	7	655	42	0.264	662	0.001	1	661	36
Apr-13	2,448	829	1.017	843	840	1.010	849	0.264	646	0.016	11	636	840	0.264	646	0.010	7	640	847
May-13	2,581	265	1.015	269	270	1.002	271	0.264	682	0.015	10	672	275	0.264	682	0.002	1	680	271
Jun-13	2,351	437	1.017	445	442	1.003	443	0.264	621	0.017	11	610	448	0.264	621	0.003	2	619	444
Jul-13	2,545	423	1.020	431	425	1.001	425	0.264	672	0.019	13	659	436	0.264	672	0.001	1	672	426
Aug-13	2,546	258	1.024	264	262	1.002	262	0.264	672	0.023	15	657	273	0.264	672	0.002	1	671	263
Sep-13	2,483	557	1.029	573	563	1.004	565	0.264	656	0.028	18	637	575	0.264	656	0.004	3	653	566
Oct-13	2,585	432	1.033	446	437	1.006	440	0.264	683	0.032	22	661	454	0.264	683	0.006	4	679	441
Nov-13	2,490	5	1.043	5	6	1.009	6	0.264	658	0.041	27	630	32	0.264	658	0.008	6	652	12
Dec-13	2,706	64	1.051	67	67	1.011	68	0.264	715	0.049	35	680	99	0.264	715	0.011	8	707	75
Jan-14	2,623	71	1.062	75	72	1.012	73	0.264	693	0.059	41	652	112	0.264	693	0.012	8	685	80
Feb-14	2,322	24	1.078	26	26	1.012	26	0.264	613	0.073	45	569	69	0.264	613	0.012	7	606	33
Mar-14	2,658	40	1.113	45	42	1.020	43	0.264	702	0.102	71	631	111	0.264	702	0.020	14	688	56
Apr-14	2,541	1,407	1.156	1,627	1,486	1.064	1,581	0.264	671	0.135	91	580	1,498	0.264	671	0.060	40	631	1,526
May-14	2,468	254	1.242	315	281	1.024	288	0.264	652	0.195	127	525	381	0.264	652	0.023	15	637	296
Jun-14	2,521	150	1.481	222	202	1.022	207	0.264	666	0.325	216	450	366	0.264	666	0.022	15	651	217
Jul-14	2,533	81	2.947	239	169	1.021	173	0.264	669	0.661	442	227	523	0.264	669	0.021	14	655	183
Aug-14	2,534	27	26.880	726	285	1.377	393	0.264	669	0.963	644	25	671	0.264	669	0.274	183	486	468
Total		5,608		6,905	6,160		6,396		13,261		1,857	11,403	7,465		13,261		330	12,930	6,490

denotes medium flood event month

Quick Claims Estimates for September

Selections: January-13 to April-14 - maximum of average of loss development methods, current incurred
May-14 to July-14 - average of loss development methods, incurred loss Bornhuetter-Ferguson
August-14 - average of all methods

70,755,049 based on incurred loss development
104,558,376 based on developed number of claims and small average claim size
179,729,648 based on developed number of claims and medium average claim size*
246,962,744 based on developed number of claims and large average claim size

*selected value

Direct
Estimate of Ultimate Loss as of 08/31/14
[\$00,000's Omitted]

	(1)	Paid Development Method			Paid + Case Development Method			Paid Loss Bornhuetter-Ferguson Method						Paid+Case Loss Bornhuetter-Ferguson Method						(20)
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	
in losses risen slight	Earned Premium	Paid Loss	Factor to Ultimate	Estimated Ult. Loss (2)x(3)	Paid + Case	Factor to Ultimate	Estimated Ult. Loss (5)x(6)	Expected Pure Prem.	Estimated Ult. Loss	Reserve Factor	Indicated Reserve	Expected Paid Loss	Indicated Ult. Loss	Expected Pure Prem.	Estimated Ult. Loss	IBNR Factor	Indicated IBNR	Expected Paid+Case Loss	Indicated Ult. Loss	Selected Ultimate Loss
Prior																				
Jan-13	431	61	1.014	62	61	1.013	62	0.593	256	0.014	4	252	65	0.593	256	0.013	3	253	64	62
Feb-13	392	69	1.016	70	69	1.015	70	0.593	233	0.016	4	229	73	0.593	233	0.015	4	229	73	70
Mar-13	434	18	1.018	18	18	1.018	18	0.593	258	0.018	5	253	23	0.593	258	0.018	5	253	23	18
Apr-13	421	428	1.016	435	428	1.014	434	0.593	250	0.015	4	246	432	0.593	250	0.014	3	246	431	435
May-13	437	97	1.025	99	97	1.023	99	0.593	259	0.025	6	253	103	0.593	259	0.023	6	253	103	99
Jun-13	414	150	1.026	154	151	1.023	155	0.593	246	0.025	6	239	156	0.593	246	0.023	6	240	157	155
Jul-13	443	66	1.032	68	66	1.028	68	0.593	263	0.031	8	255	74	0.593	263	0.027	7	256	73	68
Aug-13	446	54	1.035	56	54	1.032	56	0.593	265	0.034	9	256	63	0.593	265	0.031	8	256	62	56
Sep-13	432	197	1.043	206	197	1.041	205	0.593	256	0.041	11	246	208	0.593	256	0.039	10	246	207	206
Oct-13	446	123	1.048	129	123	1.045	128	0.593	265	0.046	12	252	135	0.593	265	0.043	11	253	134	129
Nov-13	432	3	1.055	3	3	1.052	3	0.593	256	0.052	13	243	16	0.593	256	0.049	13	244	16	3
Dec-13	447	27	1.064	29	27	1.056	29	0.593	265	0.060	16	249	43	0.593	265	0.053	14	251	41	29
Jan-14	448	16	1.076	17	16	1.064	17	0.593	266	0.070	19	247	35	0.593	266	0.060	16	250	32	17
Feb-14	404	9	1.101	10	9	1.082	10	0.593	240	0.092	22	218	31	0.593	240	0.076	18	222	27	10
Mar-14	445	22	1.128	25	22	1.099	24	0.593	264	0.113	30	234	52	0.593	264	0.090	24	240	46	25
Apr-14	429	346	1.221	422	350	1.143	400	0.593	255	0.181	46	209	392	0.593	255	0.125	32	223	382	411
May-14	408	99	1.324	131	105	1.194	125	0.593	242	0.245	59	183	158	0.593	242	0.163	39	203	144	133
Jun-14	415	57	1.905	109	69	1.239	85	0.593	246	0.475	117	129	174	0.593	246	0.193	47	199	116	103
Jul-14	429	27	6.073	164	40	1.063	43	0.593	255	0.835	213	42	240	0.593	255	0.059	15	240	55	87
Aug-14	432	5	67.894	339	71	1.297	92	0.593	256	0.985	253	4	258	0.593	256	0.229	59	198	130	205
Total		1,874		2,546	1,976		2,123		5,095		856	4,239	2,730		5,095		340	4,755	2,316	2,319

denotes medium flood event month

Quick Claims Estimates for September

Selections: January-13 to April-14 - maximum of average of loss development methods, current incurred
May-14 to July-14 - average of loss development methods, incurred loss Bornhuetter-Ferguson
August-14 - average of all methods

28,219,295 based on incurred loss development
28,513,568 based on developed number of claims and small average claim size
46,744,155 based on developed number of claims and medium average claim size*
47,833,898 based on developed number of claims and large average claim size

*selected value

WYO
Estimate of Ultimate ALAE as of 08/31/14
[\$000's Omitted]

Accident Month	(1) Earned Premium [\$00,000]	Paid ALAE Development Method			Paid ALAE to Paid Loss Ratio Method						Paid ALAE Bornhuetter-Ferguson Method					
		(2) Paid ALAE	(3) Factor to Ultimate	(4) Estimated Ult. ALAE (2)x(3)	(5) Projected Ultimate Loss [\$00,000]	(6) Pd ALAE to Paid Loss Ratio	(7) Factor to Ultimate	(8) Projected Ult Pd ALAE to Proj Loss Ratio (6)x(7)	(9) Selected Ult Pd ALAE to Proj Loss Ratio	(10) Estimated Ult. ALAE [(5)x(9)x100]	(11) Expected Pure Prem.	(12) Initial Estimated Ult. ALAE	(13) Reserve Factor	(14) Indicated Reserve	(15) Indicated Ult. ALAE	(16) Selected Ultimate ALAE
Prior																
Jan-13	2,501	926	1.000	926	134	0.0690	1.000	0.0690	0.0690	922	1.223	3,059	0.000	-	926	926
Feb-13	2,269	798	1.002	800	117	0.0690	1.000	0.0690	0.0690	809	1.223	2,776	0.002	6	804	804
Mar-13	2,507	280	1.003	281	35	0.0800	1.000	0.0800	0.0800	282	1.223	3,067	0.003	9	289	281
Apr-13	2,448	5,038	1.003	5,053	846	0.0610	1.000	0.0610	0.0610	5,159	1.223	2,995	0.003	9	5,047	5,106
May-13	2,581	1,739	1.006	1,749	270	0.0660	1.000	0.0660	0.0660	1,782	1.223	3,157	0.006	19	1,758	1,766
Jun-13	2,351	2,781	1.008	2,803	444	0.0640	1.000	0.0640	0.0640	2,841	1.223	2,876	0.008	23	2,804	2,822
Jul-13	2,545	2,761	1.009	2,786	428	0.0650	1.000	0.0650	0.0650	2,785	1.223	3,113	0.009	28	2,789	2,785
Aug-13	2,546	1,441	1.011	1,457	263	0.0560	1.000	0.0560	0.0560	1,474	1.223	3,114	0.011	34	1,475	1,466
Sep-13	2,483	2,757	1.011	2,787	569	0.0490	1.000	0.0490	0.0490	2,789	1.223	3,037	0.011	33	2,790	2,788
Oct-13	2,585	1,863	1.016	1,893	443	0.0430	1.000	0.0430	0.0430	1,905	1.223	3,162	0.016	50	1,913	1,899
Nov-13	2,490	64	1.027	66	6	0.1280	1.000	0.1281	0.1281	77	1.223	3,046	0.027	81	145	71
Dec-13	2,706	459	1.030	473	68	0.0720	1.000	0.0720	0.0720	486	1.223	3,310	0.029	98	557	479
Jan-14	2,623	499	1.041	519	74	0.0700	0.997	0.0698	0.0698	518	1.223	3,209	0.039	125	624	518
Feb-14	2,322	234	1.059	248	26	0.0980	1.005	0.0985	0.0985	257	1.223	2,840	0.056	159	393	252
Mar-14	2,658	332	1.083	359	44	0.0830	1.005	0.0834	0.0834	364	1.223	3,252	0.076	248	580	362
Apr-14	2,541	6,470	1.123	7,264	1,604	0.0460	1.005	0.0462	0.0462	7,415	1.223	3,108	0.109	340	6,810	7,340
May-14	2,468	1,650	1.200	1,980	300	0.0650	1.005	0.0653	0.0653	1,957	1.223	3,019	0.167	504	2,154	1,969
Jun-14	2,521	1,076	1.371	1,475	215	0.0720	1.006	0.0724	0.0724	1,558	1.223	3,084	0.270	834	1,910	1,648
Jul-14	2,533	721	2.395	1,726	198	0.0890	1.006	0.0895	0.0895	1,774	1.223	3,099	0.582	1,805	2,526	2,009
Aug-14	2,534	221	20.368	4,501	564	0.0820	1.022	N/A	0.070	3,936	1.223	3,100	0.951	2,948	3,169	3,869
Total		32,110		39,148	6,648					39,090		61,424		4,404	36,293	39,161

Direct
Estimate of Ultimate ALAE as of 08/31/14
[\$000's Omitted]

Increase in losses, or have risen slightly Month	(1) Earned Premium [\$00,000]	Paid ALAE Development Method			Paid ALAE to Projected Ultimate Loss Ratio Method						Paid ALAE Bornhuetter-Ferguson Method					
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
		Paid ALAE	Factor to Ultimate	Estimated Ult. ALAE (2)x(3)	Projected Ultimate Loss [\$00,000]	Pd ALAE to Paid Loss Ratio	Factor to Ultimate	Projected Ult Pd ALAE to Proj Loss Ratio (6)x(7)	Projected Ult Pd ALAE to Proj Loss Ratio (6)x(7)	Estimated Ult. ALAE [(5)x(8)x1000]	Expected Pure Prem.	Initial Estimated Ult. ALAE	Reserve Factor	Indicated Reserve	Indicated Ult. ALAE	Selected Ultimate ALAE
Prior																
Jan-13	431	351	1.000	351	62	0.0580	1.000	0.058	0.058	360	2,648	1,141	0.000	-	351	355
Feb-13	392	399	1.000	399	70	0.0580	1.000	0.058	0.058	406	2,648	1,038	0.000	-	399	403
Mar-13	434	134	1.000	134	18	0.0740	1.000	0.074	0.074	133	2,648	1,149	0.000	-	134	134
Apr-13	421	2,483	1.006	2,498	435	0.0580	1.000	0.058	0.058	2,520	2,648	1,115	0.006	7	2,490	2,509
May-13	437	578	1.015	587	99	0.0600	1.000	0.060	0.060	594	2,648	1,157	0.015	17	595	590
Jun-13	414	841	1.016	855	155	0.0560	1.000	0.056	0.056	865	2,648	1,096	0.016	17	858	860
Jul-13	443	497	1.016	505	68	0.0750	1.000	0.075	0.075	510	2,648	1,173	0.016	19	516	508
Aug-13	446	335	1.018	341	56	0.0620	1.000	0.062	0.062	347	2,648	1,181	0.018	21	356	344
Sep-13	432	979	1.021	1,000	206	0.0500	1.002	0.050	0.050	1,030	2,648	1,144	0.021	24	1,003	1,015
Oct-13	446	530	1.022	542	129	0.0430	1.002	0.043	0.043	554	2,648	1,181	0.022	26	556	548
Nov-13	432	26	1.024	27	3	0.0870	1.002	0.087	0.087	26	2,648	1,144	0.024	27	53	26
Dec-13	447	175	1.029	180	29	0.0650	1.006	0.065	0.065	190	2,648	1,184	0.029	34	209	185
Jan-14	448	112	1.041	117	17	0.0700	1.014	0.071	0.071	121	2,648	1,186	0.039	46	158	119
Feb-14	404	76	1.051	80	10	0.0840	1.014	0.085	0.085	85	2,648	1,070	0.049	52	128	83
Mar-14	445	114	1.064	121	25	0.0520	1.014	0.053	0.053	129	2,648	1,178	0.060	71	185	125
Apr-14	429	1,538	1.089	1,675	411	0.0440	1.014	0.045	0.045	1,833	2,648	1,136	0.082	93	1,631	1,754
May-14	408	578	1.137	657	133	0.0580	1.014	0.059	0.059	785	2,648	1,080	0.121	130	708	721
Jun-14	415	353	1.299	458	103	0.0620	1.018	0.063	0.043	441	2,648	1,099	0.230	253	606	502
Jul-14	429	203	2.231	453	87	0.0750	0.950	0.071	0.071	622	2,648	1,136	0.552	627	830	635
Aug-14	432	41	22.884	938	205	0.0820	1.014	N/A	0.062	1,274	2,648	1,144	0.956	1,094	1,135	1,204
Total		10,343		11,917	2,319					12,824		22,734		1,463	11,765	12,619

Loss Development Derivation

This analysis represents an effort to make more extensive use of the years of development data we have, by doing two things:

Updated: 9/30/2014

1. Using more data than the 21 latest months historically evaluated;
2. Grouping months according to overall size, to see if larger-event months develop differently.

Below is a summary of the factors developed for paid vs. incurred development, WYO vs. Direct. Months have been grouped by the size of their eventual losses within the WYO companies (as judged at about the 8th month):

Small	Less than \$100 mm
Medium	\$100-\$400 mm in losses
Large	Excess of \$400 mm in losses

(The color coding is used to help keep the various categories straight)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Cumulative Paid LDF - WYO																				
Small	26.880	2.947	1.481	1.242	1.154	1.113	1.078	1.062	1.051	1.043	1.033	1.029	1.024	1.020	1.017	1.015	1.012	1.011	1.010	1.009
Medium	40.281	3.268	1.564	1.257	1.156	1.108	1.078	1.061	1.050	1.043	1.036	1.032	1.028	1.023	1.020	1.018	1.017	1.015	1.014	1.013
Large	98.917	6.842	2.497	1.600	1.295	1.166	1.110	1.083	1.066	1.054	1.046	1.038	1.033	1.029	1.026	1.024	1.022	1.020	1.018	1.018
		14.4578	2.73977	1.56046	1.2354													1.00111	1.00127	1.00147
Cumulative Incurred LDF - WYO																				
Small	1.377	1.021	1.022	1.024	1.018	1.020	1.012	1.012	1.011	1.009	1.006	1.004	1.002	1.001	1.003	1.002	1.001	1.001	1.002	1.001
Medium	2.029	1.132	1.094	1.078	1.064	1.050	1.040	1.034	1.030	1.025	1.021	1.019	1.017	1.015	1.012	1.011	1.010	1.009	1.009	1.008
Large	4.016	1.328	1.141	1.084	1.071	1.061	1.050	1.042	1.037	1.033	1.029	1.025	1.022	1.020	1.018	1.017	1.015	1.014	1.012	1.013
		3.02412	1.1636	1.05273	1.01197															
Cumulative Paid LDF - Direct																				
Small	67.894	6.073	1.905	1.324	1.184	1.128	1.101	1.076	1.064	1.055	1.048	1.043	1.035	1.032	1.026	1.025	1.023	1.018	1.016	1.014
Medium	99.550	6.210	2.075	1.391	1.221	1.136	1.097	1.085	1.073	1.067	1.050	1.036	1.032	1.023	1.019	1.017	1.016	1.015	1.014	1.011
Large	173.100	10.276	3.354	1.924	1.414	1.213	1.136	1.092	1.074	1.060	1.050	1.042	1.035	1.029	1.025	1.023	1.022	1.020	1.019	1.017
																		1.00459	1.00231	1.00154
Cumulative Incurred LDF - Direct																				
Small	1.297	1.063	1.239	1.194	1.137	1.099	1.082	1.064	1.056	1.052	1.045	1.041	1.032	1.028	1.023	1.023	1.021	1.018	1.015	1.013
Medium	1.618	1.059	1.140	1.163	1.143	1.104	1.076	1.069	1.065	1.060	1.044	1.032	1.029	1.020	1.018	1.015	1.014	1.014	1.013	1.010
Large	4.519	1.276	1.155	1.115	1.107	1.097	1.086	1.068	1.059	1.049	1.042	1.035	1.029	1.025	1.023	1.021	1.020	1.019	1.018	1.016

WYO
Cumulative Historical Paid ALAE (000)

Accident Month	<u>Months of Development</u>																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Jan-13	87	475	713	804	864	881	894	900	905	904	911	917	920	921	923	925	922	925	924	926
Feb-13	33	322	575	657	704	741	757	767	771	768	786	795	787	788	788	788	798	796	798	
Mar-13	30	103	180	209	235	257	261	268	269	268	279	279	280	280	280	280	280	280		
Apr-13	81	1,554	3,311	4,237	4,633	4,770	4,841	4,873	4,913	4,935	4,960	4,975	4,970	4,991	5,013	5,032	5,038			
May-13	100	643	1,247	1,459	1,582	1,638	1,672	1,702	1,709	1,723	1,728	1,734	1,737	1,737	1,732	1,739				
Jun-13	150	1,062	2,036	2,314	2,497	2,612	2,665	2,704	2,722	2,748	2,759	2,772	2,767	2,777	2,781					
Jul-13	296	1,533	2,203	2,520	2,595	2,625	2,683	2,701	2,715	2,727	2,741	2,745	2,742	2,761						
Aug-13	163	741	1,151	1,296	1,330	1,368	1,395	1,408	1,412	1,422	1,421	1,430	1,441							
Sep-13	133	1,244	2,174	2,472	2,570	2,640	2,667	2,691	2,718	2,725	2,735	2,757								
Oct-13	159	814	1,486	1,630	1,682	1,708	1,727	1,751	1,833	1,839	1,863									
Nov-13	7	35	50	52	56	58	59	63	64	64										
Dec-13	13	260	386	407	426	435	448	456	459											
Jan-14	94	269	415	438	460	482	491	499												
Feb-14	15	110	176	190	208	218	234													
Mar-14	19	161	248	289	318	332														
Apr-14	102	1,588	4,332	5,971	6,470															
May-14	129	846	1,480	1,650																
Jun-14	42	605	1,076																	
Jul-14	123	721																		
Aug-14	221																			

Accident Month																				
Jan-13	5.460	1.501	1.128	1.075	1.020	1.015	1.007	1.006	0.999	1.008	1.007	1.003	1.001	1.002	1.002	0.997	1.003	0.999	1.002	
Feb-13	9.758	1.786	1.143	1.072	1.053	1.022	1.013	1.005	0.996	1.023	1.011	0.990	1.001	1.000	1.000	1.013	0.997	1.003		
Mar-13	3.433	1.748	1.161	1.124	1.094	1.016	1.027	1.004	0.996	1.041	1.000	1.004	1.000	1.000	1.000	1.000	1.000			
Apr-13	19.185	2.131	1.280	1.093	1.030	1.015	1.007	1.008	1.004	1.005	1.003	0.999	1.004	1.004	1.004	1.001				
May-13	6.430	1.939	1.170	1.084	1.035	1.021	1.018	1.004	1.008	1.003	1.003	1.002	1.000	0.997	1.004					
Jun-13	7.080	1.917	1.137	1.079	1.046	1.020	1.015	1.007	1.010	1.004	1.005	0.998	1.004	1.001						
Jul-13	5.179	1.437	1.144	1.030	1.012	1.022	1.007	1.005	1.004	1.005	1.001	0.999	1.007							
Aug-13	4.546	1.553	1.126	1.026	1.029	1.020	1.009	1.003	1.007	0.999	1.006	1.008								
Sep-13	9.353	1.748	1.137	1.040	1.027	1.010	1.009	1.010	1.003	1.004	1.008									
Oct-13	5.119	1.826	1.097	1.032	1.015	1.011	1.014	1.047	1.003	1.013										
Nov-13	5.000	1.429	1.040	1.077	1.036	1.017	1.068	1.016	1.000											
Dec-13	20.000	1.485	1.054	1.047	1.021	1.030	1.018	1.007												
Jan-14	2.862	1.543	1.055	1.050	1.048	1.019	1.016													
Feb-14	7.333	1.600	1.080	1.095	1.048	1.073														
Mar-14	8.474	1.540	1.165	1.100	1.044															
Apr-14	15.569	2.728	1.378	1.084																
May-14	6.558	1.749	1.115																	
Jun-14	14.405	1.779																		
Jul-14	5.862																			
Aug-14																				
Average	8.506	1.747	1.142	1.069	1.037	1.022	1.018	1.010	1.003	1.011	1.005	1.000	1.002	1.001	1.002	1.003	1.000	1.001	1.002	
Cumulative	20.368	2.395	1.371	1.200	1.123	1.083	1.059	1.041	1.030	1.027	1.016	1.011	1.011	1.009	1.008	1.006	1.003	1.003	1.002	1.000

WYO
Paid ALAE to Paid Loss Ratios

Accident Month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Jan-13	0.067	0.070	0.071	0.069	0.069	0.069	0.069	0.069	0.070	0.069	0.070	0.069	0.069	0.069	0.069	0.070	0.069	0.070	0.069
Feb-13	0.110	0.087	0.071	0.071	0.068	0.069	0.069	0.070	0.069	0.069	0.069	0.069	0.068	0.068	0.068	0.068	0.069	0.069	0.069
Mar-13	0.300	0.129	0.095	0.095	0.090	0.089	0.087	0.089	0.090	0.089	0.080	0.080	0.080	0.080	0.080	0.080	0.080	0.080	0.080
Apr-13	0.031	0.062	0.057	0.061	0.061	0.061	0.061	0.061	0.061	0.061	0.061	0.061	0.061	0.060	0.061	0.061	0.061		
May-13	0.091	0.071	0.070	0.068	0.066	0.066	0.067	0.066	0.065	0.066	0.066	0.066	0.066	0.066	0.066	0.065	0.066		
Jun-13	0.083	0.079	0.068	0.067	0.066	0.066	0.065	0.065	0.064	0.064	0.063	0.064	0.064	0.064	0.064				
Jul-13	0.062	0.070	0.068	0.067	0.067	0.067	0.066	0.066	0.066	0.066	0.066	0.066	0.066	0.065	0.065				
Aug-13	0.054	0.063	0.058	0.057	0.056	0.057	0.056	0.056	0.056	0.056	0.056	0.056	0.056						
Sep-13	0.044	0.061	0.052	0.051	0.050	0.050	0.050	0.049	0.049	0.049	0.049	0.049							
Oct-13	0.059	0.046	0.044	0.045	0.045	0.044	0.044	0.044	0.043	0.043	0.043								
Nov-13	N/A	0.117	0.125	0.130	0.112	0.116	0.118	0.126	0.128	0.128									
Dec-13	0.043	0.076	0.070	0.070	0.070	0.069	0.071	0.072	0.072										
Jan-14	0.094	0.087	0.070	0.071	0.069	0.069	0.069	0.070											
Feb-14	N/A	0.122	0.110	0.106	0.109	0.109	0.098												
Mar-14	0.190	0.081	0.083	0.085	0.086	0.083													
Apr-14	0.068	0.047	0.045	0.046	0.046														
May-14	0.072	0.072	0.066	0.065															
Jun-14	0.070	0.074	0.072																
Jul-14	0.095	0.089																	
Aug-14	0.082																		

Accident Month	Months of Development																		
	1-2	2-3	3-4	4-5	5-6	6-7	7-8	8-9	9-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Jan-13	1.0448	1.0143	0.9718	1.0000	1.0000	1.0000	1.0000	1.0145	0.9857	1.0145	0.9857	1.0000	1.0000	1.0000	1.0145	0.9857	1.0145	0.9857	
Feb-13	0.7909	0.8161	1.0000	0.9577	1.0147	1.0000	1.0145	0.9857	1.0000	1.0000	1.0000	0.9855	1.0000	1.0000	1.0000	1.0147	1.0000	1.0000	
Mar-13	0.4300	0.7364	1.0000	0.9474	0.9889	0.9775	1.0230	1.0112	0.9889	0.8989	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
Apr-13	2.0000	0.9194	1.0702	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.9836	1.0167	1.0000	1.0000			
May-13	0.7802	0.9859	0.9714	0.9706	1.0000	1.0152	0.9851	0.9848	1.0154	1.0000	1.0000	1.0000	1.0000	0.9848	1.0154				
Jun-13	0.9518	0.8608	0.9853	0.9851	1.0000	0.9848	1.0000	0.9846	1.0000	0.9844	1.0159	1.0000	1.0000	1.0000					
Jul-13	1.1290	0.9714	0.9853	1.0000	1.0000	0.9851	1.0000	1.0000	1.0000	1.0000	1.0000	0.9848	1.0000						
Aug-13	1.1667	0.9206	0.9828	0.9825	1.0179	0.9825	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000							
Sep-13	1.3864	0.8525	0.9808	0.9804	1.0000	1.0000	0.9800	1.0000	1.0000	1.0000	1.0000								
Oct-13	0.7797	0.9565	1.0227	1.0000	0.9778	1.0000	1.0000	0.9773	1.0000	1.0000									
Nov-13	N/A	1.0684	1.0400	0.8615	1.0357	1.0172	1.0678	1.0159	1.0000										
Dec-13	1.7674	0.9211	1.0000	1.0000	0.9857	1.0290	1.0141	1.0000											
Jan-14	0.9255	0.8046	1.0143	0.9718	1.0000	1.0000	1.0145												
Feb-14	N/A	0.9016	0.9636	1.0283	1.0000	0.8991													
Mar-14	0.4263	1.0247	1.0241	1.0118	0.9651														
Apr-14	0.6912	0.9574	1.0222	1.0000															
May-14	1.0000	0.9167	0.9848																
Jun-14	1.0571	0.9730																	
Jul-14	0.9368																		
Aug-14																			
Average	1.016	0.922	1.001	0.981	0.999	0.992	1.008	0.998	0.999	0.990	1.000	0.996	0.998	1.000	1.006	1.000	1.005	0.993	
Selected	1.016	1.000	1.001	1.000	1.000	1.000	1.008	0.998	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
Cumulative	1.022	1.006	1.006	1.005	1.005	1.005	1.005	0.997	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Direct Cumulative Historical Paid ALAE (000)																				
Accident Month	Months of Development																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Jan-13	5	139	242	278	318	322	327	332	333	337	337	337	342	342	339	339	346	351	351	351
Feb-13	9	107	281	337	352	368	373	391	393	395	395	395	397	394	397	398	398	399	399	
Mar-13	5	41	92	106	112	124	125	128	130	131	132	132	132	132	132	132	134	134		
Apr-13	30	724	1,788	2,130	2,306	2,366	2,393	2,409	2,422	2,432	2,439	2,435	2,438	2,472	2,475	2,482	2,483			
May-13	46	229	417	521	545	557	563	566	571	576	577	577	577	578	578	578				
Jun-13	26	357	639	766	803	814	823	823	827	828	829	833	835	840	841					
Jul-13	89	332	435	472	479	489	492	494	494	494	497	497	497	497						
Aug-13	72	213	290	302	315	316	321	327	328	332	332	334	335							
Sep-13	55	564	860	909	928	958	963	966	969	973	977	979								
Oct-13	46	272	462	502	515	516	524	526	528	530	530									
Nov-13	3	14	17	22	23	23	24	24	26	26										
Dec-13	5	110	165	171	173	175	176	176	175											
Jan-14	38	85	104	110	112	112	112	112												
Feb-14	6	49	66	74	75	76	76													
Mar-14	8	72	92	103	108	114														
Apr-14	62	520	1,109	1,472	1,538															
May-14	62	302	553	578																
Jun-14	12	196	353																	
Jul-14	36	203																		
Aug-14	41																			

Accident Month																				
Jan-13	27.800	1.741	1.149	1.144	1.013	1.016	1.015	1.003	1.012	1.000	1.000	1.015	1.000	0.991	1.000	1.021	1.014	1.000	1.000	
Feb-13	11.889	2.626	1.199	1.045	1.045	1.014	1.048	1.005	1.005	1.000	1.000	1.005	0.992	1.008	1.003	1.000	1.003	1.000		
Mar-13	8.200	2.244	1.152	1.057	1.107	1.008	1.024	1.016	1.008	1.008	1.000	1.000	1.000	1.000	1.000	1.015	1.000			
Apr-13	24.133	2.470	1.191	1.083	1.026	1.011	1.007	1.005	1.004	1.003	0.998	1.001	1.014	1.001	1.003	1.000				
May-13	4.978	1.821	1.249	1.046	1.022	1.011	1.005	1.009	1.009	1.002	1.000	1.000	1.002	1.000	1.000					
Jun-13	13.731	1.790	1.199	1.048	1.014	1.011	1.000	1.005	1.001	1.001	1.005	1.002	1.006	1.001						
Jul-13	3.730	1.310	1.085	1.015	1.021	1.006	1.004	1.000	1.000	1.006	1.000	1.000	1.000							
Aug-13	2.958	1.362	1.041	1.043	1.003	1.016	1.019	1.003	1.012	1.000	1.006	1.003								
Sep-13	10.255	1.525	1.057	1.021	1.032	1.005	1.003	1.003	1.004	1.004	1.002									
Oct-13	5.913	1.699	1.087	1.026	1.002	1.016	1.004	1.004	1.004	1.000										
Nov-13	4.667	1.214	1.294	1.045	1.000	1.043	1.000	1.083	1.000											
Dec-13	22.000	1.500	1.036	1.012	1.012	1.006	1.000	0.994												
Jan-14	2.237	1.224	1.058	1.018	1.000	1.000	1.000													
Feb-14	8.167	1.347	1.121	1.014	1.013	1.000														
Mar-14	9.000	1.278	1.120	1.049	1.056															
Apr-14	8.387	2.133	1.327	1.045																
May-14	4.871	1.831	1.045																	
Jun-14	16.333	1.801																		
Jul-14	5.639																			
Aug-14																				
Average	10.257	1.718	1.142	1.044	1.024	1.012	1.010	1.011	1.005	1.002	1.001	1.003	1.002	1.000	1.001	1.009	1.006	1.000	1.000	
Cumulative	22.884	2.231	1.299	1.137	1.089	1.064	1.051	1.041	1.029	1.024	1.022	1.021	1.018	1.016	1.016	1.015	1.006	1.000	1.000	1.000

Direct
Paid ALAE to Paid Loss Ratios

Accident Month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Jan-13	0.025	0.058	0.059	0.062	0.059	0.058	0.057	0.057	0.057	0.058	0.058	0.058	0.058	0.058	0.057	0.057	0.058	0.058	0.058
Feb-13	0.090	0.076	0.060	0.060	0.059	0.059	0.060	0.058	0.058	0.057	0.057	0.057	0.058	0.057	0.058	0.058	0.058	0.058	0.058
Mar-13	N/A	0.103	0.071	0.076	0.075	0.078	0.078	0.075	0.076	0.077	0.078	0.078	0.078	0.078	0.078	0.078	0.074	0.074	
Apr-13	0.030	0.065	0.057	0.058	0.059	0.058	0.058	0.058	0.058	0.058	0.058	0.057	0.058	0.058	0.058	0.058	0.058		
May-13	0.077	0.065	0.066	0.061	0.061	0.059	0.059	0.060	0.059	0.060	0.059	0.059	0.059	0.060	0.060	0.060	0.060		
Jun-13	0.043	0.070	0.065	0.058	0.057	0.057	0.057	0.056	0.056	0.056	0.056	0.057	0.056	0.056	0.056	0.056			
Jul-13	0.074	0.079	0.076	0.074	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075					
Aug-13	0.065	0.061	0.063	0.064	0.064	0.064	0.066	0.062	0.062	0.063	0.063	0.062	0.062						
Sep-13	0.042	0.059	0.052	0.052	0.051	0.050	0.050	0.050	0.050	0.050	0.050	0.050							
Oct-13	0.092	0.049	0.044	0.044	0.044	0.044	0.043	0.043	0.043	0.043	0.043								
Nov-13	N/A	0.140	0.085	0.110	0.115	0.115	0.080	0.080	0.087	0.087									
Dec-13	0.050	0.065	0.066	0.066	0.067	0.067	0.065	0.065	0.065										
Jan-14	0.127	0.077	0.074	0.069	0.070	0.070	0.070	0.070											
Feb-14	N/A	0.082	0.083	0.082	0.083	0.084	0.084												
Mar-14	0.080	0.048	0.054	0.052	0.051	0.052													
Apr-14	0.078	0.044	0.047	0.045	0.044														
May-14	0.056	0.063	0.058	0.058															
Jun-14	0.120	0.063	0.062																
Jul-14	0.120	0.075																	
Aug-14	0.082																		

Accident Month	<u>Months of Development</u>																		
	1-2	2-3	3-4	4-5	5-6	6-7	7-8	8-9	9-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Jan-13	2.3200	1.0172	1.0508	0.9516	0.9831	0.9828	1.0000	1.0000	1.0175	1.0000	1.0000	1.0000	1.0000	0.9828	1.0000	1.0175	1.0000	1.0000	1.0000
Feb-13	0.8444	0.7895	1.0000	0.9833	1.0000	1.0169	0.9667	1.0000	0.9828	1.0000	1.0000	1.0175	0.9828	1.0175	1.0000	1.0000	1.0000	1.0000	1.0000
Mar-13	N/A	0.6893	1.0704	0.9868	1.0400	1.0000	0.9615	1.0133	1.0132	1.0130	1.0000	1.0000	1.0000	1.0000	1.0000	0.9487	1.0000		
Apr-13	2.1667	0.8769	1.0175	1.0172	0.9831	1.0000	1.0000	1.0000	1.0000	1.0000	0.9828	1.0175	1.0000	1.0000	1.0000	1.0000			
May-13	0.8442	1.0154	0.9242	1.0000	0.9672	1.0000	1.0169	0.9833	1.0169	0.9833	1.0000	1.0000	1.0169	1.0000	1.0000				
Jun-13	1.6279	0.9286	0.8923	0.9828	1.0000	1.0000	0.9825	1.0000	1.0000	1.0000	1.0179	0.9825	1.0000	1.0000					
Jul-13	1.0676	0.9620	0.9737	1.0135	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000						
Aug-13	0.9385	1.0328	1.0159	1.0000	1.0000	1.0313	0.9394	1.0000	1.0161	1.0000	0.9841	1.0000							
Sep-13	1.4048	0.8814	1.0000	0.9808	0.9804	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000								
Oct-13	0.5326	0.8980	1.0000	1.0000	1.0000	0.9773	1.0000	1.0000	1.0000	1.0000									
Nov-13	N/A	0.6071	1.2941	1.0455	1.0000	0.6957	1.0000	1.0875	1.0000										
Dec-13	1.3000	1.0154	1.0000	1.0152	1.0000	0.9701	1.0000	1.0000											
Jan-14	0.6063	0.9610	0.9324	1.0145	1.0000	1.0000	1.0000												
Feb-14	N/A	1.0122	0.9880	1.0122	1.0120	1.0000													
Mar-14	0.6000	1.1250	0.9630	0.9808	1.0196														
Apr-14	0.5641	1.0682	0.9574	0.9778															
May-14	1.1250	0.9206	1.0000																
Jun-14	0.5250	0.9841																	
Jul-14	0.6250																		
Aug-14																			

Average	1.068	0.932	1.005	0.998	0.999	0.977	0.990	1.007	1.004	1.000	0.998	1.002	1.000	1.000	1.000	0.992	1.000	1.000	1.000
Selected	1.068	0.932	1.005	1.000	1.000	1.000	1.000	1.007	1.004	1.000	1.000	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Cumulative	1.014	0.950	1.018	1.014	1.014	1.014	1.014	1.014	1.006	1.002	1.002	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Pure Premium Analysis for Bornhuetter-Ferguson Calculation

Pure Premium look - WYO losses

	2014	2013	2012	2011	2010	2009	Quarterly Averages	
Jan	0.027	0.053	0.059	0.013	0.044	0.190		
Feb	0.011	0.052	0.013	0.085	0.021	0.007		
Mar	0.016	0.014	0.088	0.216	0.668	0.238	0.101	J-F-M
April	0.585	0.343	0.008	0.383	0.029	0.728		
May	0.114	0.105	0.059	0.377	0.975	0.202		
June	0.080	0.188	0.229	0.447	0.211	0.117	0.288	A-M-J
July	0.067	0.167	0.063	0.107	0.226	0.033		
August	0.113	0.103	1.738	4.760	0.076	0.081		
Sept		0.227	0.037	1.839	0.255	0.524	0.354	J-A-S
Oct		0.169	30.261	0.103	0.070	0.093		
Nov		0.002	0.138	0.013	0.011	0.519		
Dec		0.025	0.030	0.004	0.071	0.229	0.106	O-N-D

0.264

Pure Premium look - Direct losses

	2014	2013	2012	2011	2010	2009	Quarterly Averages	
Jan	0.036	0.142	0.133	0.013	0.208	0.596		
Feb	0.023	0.177	0.049	0.388	0.107	0.034		
Mar	0.050	0.041	0.219	1.031	4.602	0.923	0.487	J-F-M
April	0.816	1.017	0.016	0.971	0.101	1.275		
May	0.258	0.223	0.070	0.796	2.358	0.762		
June	0.167	0.366	0.266	0.962	1.222	0.165	0.656	A-M-J
July	0.093	0.150	0.145	0.279	0.624	0.111		
August	0.165	0.121	3.696	7.540	0.145	0.187		
Sept		0.457	0.106	2.532	0.464	1.462	0.671	J-A-S
Oct		0.277	23.104	0.102	0.283	0.372		
Nov		0.006	0.623	0.023	0.018	1.487		
Dec		0.060	0.040	0.009	0.420	0.751	0.319	O-N-D

0.593

Pure Premium look - WYO ALAE

	2014	2013	2012	2011	2010	2009	Quarterly Averages	
Jan	0.190	0.370	0.359	0.077	0.336	0.945		
Feb	0.101	0.352	0.080	0.483	0.176	0.077		
Mar	0.125	0.112	0.452	1.349	4.214	1.326	0.618	J-F-M
April	2.546	2.058	0.081	2.021	0.208	3.333		
May	0.669	0.674	0.317	1.677	3.557	1.136		
June	0.427	1.183	1.225	1.653	1.060	0.623	1.358	A-M-J
July	0.285	1.085	0.377	0.636	1.322	0.240		
August	0.087	0.566	6.729	22.700	0.380	0.516		
Sept		1.110	0.239	7.073	1.201	1.889	1.483	J-A-S
Oct		0.721	107.248	0.542	0.423	0.580		
Nov		0.026	0.563	0.092	0.086	3.345		
Dec		0.170	0.231	0.046	0.446	1.164	0.602	O-N-D

1.223

Pure Premium look - Direct ALAE

	2014	2013	2012	2011	2010	2009	Quarterly Averages	
Jan	0.250	0.815	0.655	0.120	1.225	2.491		
Feb	0.189	1.018	0.225	1.661	0.597	0.213		
Mar	0.255	0.309	1.030	5.606	21.890	4.694	2.403	J-F-M
April	3.585	5.898	0.135	5.091	0.641	5.594		
May	1.416	1.322	0.397	3.539	8.047	3.663		
June	0.851	2.031	1.421	3.569	5.097	1.187	2.971	A-M-J
July	0.474	1.121	0.770	1.572	3.820	0.720		
August	0.095	0.751	13.741	31.590	0.850	1.125		
Sept		2.266	0.573	10.408	2.157	4.410	2.803	J-A-S
Oct		1.189	82.903	0.625	1.580	1.973		
Nov		0.059	2.245	0.184	0.207	7.389		
Dec		0.391	0.271	0.095	2.258	3.490	1.568	O-N-D

2.648

Superstorm Sandy Calculation

Assume claim number will develop similarly to Katrina

	Katrina	Rita	Normal Avg.	Avg. of Katrina, Normal
Number of Claims Estimate				
(1). Projected ultimate # claims	13,500	1,396		
(2). Number of claims @ January, 2008	7,216	1,067		
Development factor - (1)/(2)	1.871	1.308	1.571	1.721 <i>selected</i>
Current number of Sandy ICC claims	8,533			
Projected Total # claims	14,685			
Selection	14,685			
Average Claim Size Estimate				
(3). Projected average Katrina ICC claim	\$18,188			
(4). Average Katrina ICC claim @ January, 2008	\$17,013			
Development factor - (3)/(4)	1.069			
Current Average Sandy ICC claim	\$18,722			
Projected Average Claim	\$20,015			
Projected ICC total for Sandy	\$293,905,840			
Less amount paid to date:	\$95,907,494			
Less case reserves	\$81,343,625			
ICC IBNR reserve for Sandy	\$116,654,721			
Total WYO loss	7,292,988,554	88.1% Percent to WYO		
Total Direct loss	988,870,505	11.9% Percent to Direct		
	8,281,859,059			
WYO Sandy Case Reserve, ICC and other	\$87,346,780			
WYO Sandy ICC IBNR reserve	\$102,725,914			
Direct Sandy Case Reserve, ICC and other	\$460,600			
Direct Sandy ICC IBNR reserve	\$13,928,807			
Total estimated loss reserve for Superstorm Sandy	\$204,462,101			
Total estimated ALAE reserve for Superstorm Sandy	\$8,178,484			
Total	\$212,640,585			

Summary Calculations - Remaining Reserve is ICC

FROM Data at 08/31/14- Katrina						FROM Data at 08/31/14 - Rita					
<u>Paid Loss</u>		<u>Ult</u>				<u>Paid Loss</u>		<u>Ult</u>			
	Loss	LDF	Projection	ALAE Paid	%		Loss	LDF	Projection	ALAE Paid	%
WYO	15,751,779,047	1.000	15,751,779,047	385,577,815	2.45%	WYO	490,718,117	1.000	490,718,117	17,612,338	3.59%
Direct	577,905,674	1.000	577,905,674	16,298,799	2.82%	Direct	39,559,911	1.000	39,559,911	1,326,753	3.35%
			16,329,684,721						530,278,028		
<u>Incurred Loss</u>		<u>Ult</u>				<u>Incurred Loss</u>		<u>Ult</u>			
	Loss	LDF	Projection				Loss	LDF	Projection		
WYO	15,753,440,258	1.000	15,753,440,258			WYO	490,883,949	1.000	490,883,949		
Direct	577,905,674	1.000	577,905,674			Direct	39,559,911	1.000	39,559,911		
			16,331,345,932						530,443,860		
<u>Selected</u>				Add'l ICC (tab)	Selected Ultimate	<u>Selected</u>				Add'l ICC (tab)	Selected Ultimate
WYO			Projection			WYO			Projection		
			15,753,440,258	\$28,664,019	\$15,782,104,276				490,883,949	\$623,236	\$491,507,185
Direct			577,905,674	\$1,051,523	\$578,957,197	Direct			39,559,911	\$50,226	\$39,610,137
			16,331,345,932	\$29,715,541	\$16,361,061,473				530,443,860	\$673,462	\$531,117,322

FROM Data at 08/31/14 - Wilma						"Prior"	
<u>Paid Loss</u>		<u>Ult</u>				IBNR	"Prior ALAE IBNR"
	Loss	LDF	Projection	ALAE Paid	%	29,446,423	779,507
WYO	456,041,091	1.000	456,041,091	20,800,004	4.56%	1,108,669	31,692
Direct	19,828,513	1.000	19,828,513	1,005,809	5.07%		
			475,869,605				
<u>Incurred Loss</u>		<u>Ult</u>					
	Loss	LDF	Projection				
WYO	456,076,493	1.000	456,076,493				
Direct	19,828,513	1.000	19,828,513				
			475,905,006				
<u>Selected</u>				Add'l ICC (tab)	Selected Ultimate		
WYO			Projection				
			456,076,493	\$159,168	\$456,235,661		
Direct			19,828,513	\$6,920	\$19,835,433		
			475,905,006	\$166,088	\$476,071,094		

Incurred to date	17,337,694,798	17,337,694,798
Paid to date	17,335,832,354	
current case reserves	1,862,444	
IBNR w/o ICC	0	
ICC	30,555,092	
IBNR ALAE	811,199	
total remaining	33,228,735	

ICC Range of Estimates

Bldg. Damage	ICC Proportion Options:					ICC Proportion Options:					ICC Proportion Options:						
	Katrina Claims	Average	Prior Maximum	Option 1	Option 2	Rita Claims	Average	Prior Maximum	Option 1	Option 2	Wilma Claims	Average	Prior Maximum	Option 1	Option 2		
A-zones																	
<20%	17,547	0.1%	0.3%	0.0%	0.5%	1,634	0.1%	0.3%	0.0%	0.5%	4,543	0.1%	0.3%	0.0%	0.5%		
20-50%	18,695	2.0%	4.4%	5.0%	10.0%	1,598	2.0%	4.4%	5.0%	10.0%	2,367	2.0%	4.4%	5.0%	10.0%		
50-60%	8,163	5.8%	14.7%	20.0%	25.0%	503	5.8%	14.7%	20.0%	25.0%	476	5.8%	14.7%	20.0%	25.0%		
60-70%	8,099	8.4%	21.7%	35.0%	50.0%	494	8.4%	21.7%	35.0%	50.0%	344	8.4%	21.7%	35.0%	50.0%		
70-80%	8,115	10.5%	24.5%	50.0%	75.0%	468	10.5%	24.5%	50.0%	75.0%	251	10.5%	24.5%	50.0%	75.0%		
80% +	55,291	15.7%	35.8%	75.0%	80.0%	1,400	15.7%	35.8%	75.0%	80.0%	468	15.7%	35.8%	75.0%	80.0%		
	115,910	9.6%	22.1%	43.9%	50.4%	6,097	6.1%	14.3%	26.9%	33.0%	8,449	2.5%	5.8%	9.6%	33.0%		
V-zones																	
<20%	1,066	0.2%	0.2%	0.0%	0.5%	190	0.2%	0.2%	0.0%	0.5%	316	0.2%	0.2%	0.0%	0.5%		
20-50%	436	1.1%	5.5%	5.0%	10.0%	135	1.1%	5.5%	5.0%	10.0%	125	1.1%	5.5%	5.0%	10.0%		
50-60%	109	2.0%	5.0%	20.0%	25.0%	62	2.0%	5.0%	20.0%	25.0%	29	2.0%	5.0%	20.0%	25.0%		
60-70%	133	13.0%	50.0%	35.0%	50.0%	56	13.0%	50.0%	35.0%	50.0%	22	13.0%	50.0%	35.0%	50.0%		
70-80%	138	8.4%	25.0%	50.0%	75.0%	49	8.4%	25.0%	50.0%	75.0%	19	8.4%	25.0%	50.0%	75.0%		
80% +	1,098	13.6%	31.6%	75.0%	80.0%	284	13.6%	31.6%	75.0%	80.0%	38	13.6%	31.6%	75.0%	80.0%		
	2,980	6.3%	16.1%	33.0%	37.7%	776	6.9%	18.2%	35.6%	41.5%	549	2.2%	6.7%	10.5%	14.0%		
X-zones																	
<20%	4,911	0.1%	0.1%	0.0%	0.5%	768	0.1%	0.1%	0.0%	0.5%	225	0.1%	0.1%	0.0%	0.5%		
20-50%	4,344	0.9%	2.1%	2.0%	4.0%	509	0.9%	2.1%	2.0%	4.0%	42	0.9%	2.1%	2.0%	4.0%		
50-60%	1,714	2.1%	4.4%	5.0%	5.0%	125	2.1%	4.4%	5.0%	5.0%	7	2.1%	4.4%	5.0%	5.0%		
60-70%	1,721	2.6%	14.0%	15.0%	25.0%	102	2.6%	14.0%	15.0%	25.0%	5	2.6%	14.0%	15.0%	25.0%		
70-80%	1,751	3.9%	15.8%	25.0%	50.0%	77	3.9%	15.8%	25.0%	50.0%	6	3.9%	15.8%	25.0%	50.0%		
80% +	15,207	6.8%	18.4%	25.0%	50.0%	178	6.8%	18.4%	25.0%	50.0%	8	6.8%	18.4%	25.0%	50.0%		
	29,648	4.1%	11.8%	15.8%	31.0%	1,759	1.5%	4.3%	5.4%	10.4%	293	0.6%	1.5%	1.9%	3.9%		
Other-zones																	
<20%	132	0.0%	0.0%	0.0%	0.0%	24	0.0%	0.0%	0.0%	0.0%	3	0.0%	0.0%	0.0%	0.0%		
20-50%	227	0.0%	0.0%	0.0%	0.0%	54	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	0.0%	0.0%		
50-60%	38	0.0%	0.0%	0.0%	0.0%	14	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	0.0%	0.0%		
60-70%	49	0.0%	0.0%	0.0%	0.0%	20	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	0.0%	0.0%		
70-80%	36	0.0%	0.0%	0.0%	0.0%	13	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	0.0%	0.0%		
80% +	266	0.0%	0.0%	0.0%	0.0%	49	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	0.0%	0.0%		
	748	0.0%	0.0%	0.0%	0.0%	174	0.0%	0.0%	0.0%	0.0%	3	0.0%	0.0%	0.0%	0.0%		
Total	149,286	8.4%	19.8%	37.9%	46.0%	8,806	5.1%	12.4%	22.8%	28.6%	9,294	2.4%	5.7%	9.4%	21.9%		
Projected Claims:	13,500		29,591	56,581	68,684		453	1,089	2,009	2,517		223	531	874	2,039		
	12,000																
Avg. Claim																	
\$15,000	\$180,000,000	\$443,866,738	\$848,709,450	\$1,030,265,700		\$6,788,880	\$16,331,275	\$30,136,950	\$37,756,050		\$3,349,891	\$7,957,566	\$13,104,600	\$30,582,023			
\$17,500	\$210,000,000	\$517,844,528	\$990,161,025	\$1,201,976,650													
\$20,000	\$270,000,000	\$591,822,317	\$1,131,612,600	\$1,373,687,600		\$9,051,839	\$21,775,033	\$40,182,600	\$50,341,400		\$4,466,522	\$10,610,088	\$17,472,800	\$40,776,031			
\$25,000	\$300,000,000	\$739,777,897	\$1,414,515,750	\$1,717,109,500		\$11,314,799	\$27,218,791	\$50,228,250	\$62,926,750		\$5,583,152	\$13,262,609	\$21,841,000	\$50,970,039			
Late 2006 Estimate:					\$2,081,575,068	\$30,000,000					\$0						
0701 Selection:					\$1,700,000,000	\$25,000,000					\$25,000,000						
0805 Selection:					\$1,131,612,600	\$62,926,750					\$17,472,800						
1408 Selection:					\$270,000,000	\$34,900,000					\$2,794,000						
ICC Data paid and outstanding from ICC reports 1408																	
Paid (closed) ICC claims:					12,994 ICC rpt 1408	1,383					124						
Outstanding ICC claims:					205 ICC rpt 1408	13					3						
					13,199	1,396					127						
Including CWOP						Including CWOP					Including CWOP						
Incurred/reported on above:					\$240,284,459	Incurred/reported on above:					\$34,226,538	Incurred/reported on above:					\$2,627,912
IBNR to add to Katrina:					\$29,715,541						\$673,462						

STANDARD REINSURANCE AGREEMENT
between the
FEDERAL CROP INSURANCE CORPORATION
and the

(Insurance Company Name) (Hereafter “Company”)

(City and State)

This Agreement establishes the terms and conditions under which the Federal Crop Insurance Corporation (FCIC), supervised by the Risk Management Agency (RMA) as authorized in section 226A of the Federal Agriculture Improvement and Reform Act of 1996, will provide subsidy and reinsurance on eligible crop insurance contracts sold by the Company. This Agreement is authorized by the Federal Crop Insurance Act (Act) and regulations of FCIC published at 7 C.F.R. chapter IV (regulations).

This is a cooperative financial assistance agreement between FCIC and the Company to deliver eligible crop insurance contracts under the authority of the Act. The Agreement is not considered a contract for the purposes of the Federal Acquisition Regulations. For the purposes of this Agreement, use of the plural form of a word includes the singular and use of the singular form of a word includes the plural unless the context indicates otherwise. The Table of Contents and headings in this Agreement are descriptive only and have no legal effect on FCIC or the Company.

This Agreement becomes effective upon its execution by FCIC and the Company, and the annual approval of the Company's Plan of Operations by FCIC for the applicable reinsurance year. This Agreement is a single year agreement.

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SECTION I. DEFINITIONS

Unless otherwise provided, the definitions of terms herein only apply to the terms and conditions contained in this Agreement and not to FCIC procedures or other documents related to this Agreement.

To the maximum extent practicable, terms that have been defined in the incorporated regulations and the Act will be given the same meaning for the purpose of this Agreement. Since some terms may have more than one definition in the regulations and the Act, the specific regulation or section of the Act to be used will be specified herein.

“Act” in lieu of the definition in the incorporated regulations, means the Federal Crop Insurance Act (7 U.S.C. §§ 1501-1524).

“Actuarial data master file” means the electronic data processing (EDP) compatible information distributed by FCIC that contains premium rates, program dates, and related information concerning the crop insurance program for a crop year.

“Additional coverage” has the same meaning as the term “additional coverage” in section 502(b)(1) of the Act (7 U.S.C. § 1502(b)(1)).

“A&O subsidy” means the subsidy for the administrative and operating expenses paid by FCIC on behalf of the policyholder to the Company for additional coverage level eligible crop insurance contracts in accordance with section 508(k)(4) of the Act (7 U.S.C. § 1508(k)(4)).

“Administrative fee” means the processing fee the policyholder must pay under an eligible crop insurance contract.

“Affiliate” means any person, including, but not limited to, a managing general agent, agent, service provider, and loss adjuster, that: (1) collects premiums, services the policy, adjusts, or settles claims; (2) collects, processes, manages, and reports electronic data for the purposes of selling, administering, or servicing eligible crop insurance contracts for the Company; or (3) directly or indirectly, through one or more intermediaries, has the authority to control any aspect of the management of the book of business or any other decision made under this Agreement, without the prior and specific approval from the Company. This definition excludes commercial reinsurers and PICs if such reinsurers or PICs do not have the authority to control any aspect of the management of the book of business or any other decision made under this Agreement, without the prior and specific approval from the Company.

“Agency” means the person authorized by an AIP, or its designee, to sell and service eligible crop insurance contracts under the Federal crop insurance program.

“Agent” means any individual who is: (1) licensed by the State in which eligible crop insurance contracts are sold and serviced for the reinsurance year; and (2) authorized by

the Company, or the Company's designee, to sell and service such eligible crop insurance contracts.

"Agent of record" means, for the purposes of each eligible crop insurance contract, any agent or subagent who: (1) for a new or revised application, signs the application; and (2) for any crop year, signs the acreage or similar reports, as applicable. Each eligible crop insurance contract has at least one, and may have multiple, agents of record. All agents of record for each eligible crop insurance contract shall be reported by the Company, in accordance with Appendix III.

"Agreement" means this Standard Reinsurance Agreement, including Appendices, the Act, and regulations, in effect as of the July 1 start of the reinsurance year, unless otherwise provided for in the Agreement. An Agreement in effect for a reinsurance year constitutes a separate and distinct Agreement from any Agreement that may be in effect for any other reinsurance year, even if the Agreement has been renewed in accordance with section IV(1). Unless specifically provided for in this Agreement, if there is a conflict between a provision of the Act, the regulations, or FCIC procedures with the terms of this Agreement, the order of precedence will be: (1) the provisions of the Act; (2) the regulations; (3) this Agreement; and (4) FCIC procedures, with (1) controlling (2) and (2) controlling (3), etc. The Act and regulations are available on the RMA website (www.rma.usda.gov).

"Agricultural commodity" has the same meaning as the term "agricultural commodity" in section 518 of the Act (7 U.S.C. § 1518), excluding livestock.

"Annual settlement" means the settlement of accounts between the Company and FCIC for the reinsurance year, beginning with the October monthly transaction cutoff date following the end of the subsequent reinsurance year and continuing monthly thereafter, as necessary.

"Approved insurance provider (AIP)" means a legal entity, including the Company, which has entered into a Standard Reinsurance Agreement with FCIC for the applicable reinsurance year.

"Average A&O rate" means the total amount of A&O subsidy paid to all AIPs for the 2008 reinsurance year for all eligible crop insurance contracts divided by total net book premium earned by all AIPs for the 2008 reinsurance year for all eligible crop insurance contracts for which A&O subsidy was paid by FCIC, as of the January 2010 monthly settlement report.

"Billing date" means the date specified in the actuarial data master file as the date by which policyholders are billed for premium due on eligible crop insurance contracts.

"Book of business" means the aggregation of all eligible crop insurance contracts between the Company and its policyholders that have a sales closing date within the reinsurance year and are eligible to be reinsured under this Agreement.

“Cancellation date” has the same meaning as the term “cancellation date” in the applicable eligible crop insurance contract.

“Catastrophic risk protection (CAT)” has the same meaning as the term “catastrophic risk protection” in the applicable eligible crop insurance contract.

“CAT LAE” means the reimbursement paid by FCIC for eligible crop insurance contracts at the CAT level (as authorized in section 508(b) of the Act) (7 U.S.C. § 1508(b)) in accordance with section 508(b)(11) of the Act (7 U.S.C. § 1508(b)(11)).

“Cede” means to pass to another all or part of the net book premium and associated liability for ultimate net losses on eligible crop insurance contracts.

“Claim” means a request under an eligible crop insurance contract for an indemnity in an amount certain on a Company form that meets FCIC’s standards.

“Claims supervisor” means any person having immediate or day-to-day supervisory control, management or oversight authority of the activities of loss adjusters or other persons who determine whether an indemnity will be paid and the amount thereof.

“Company payment date” means the last business day of the month.

“Compensation” means, for any reinsurance year, commissions, salary, profit sharing, and other forms of payment including, but not limited to, transfer or other types of bonuses, consulting fees, loans, advance payments, deferred payments, cooperative advertising, and any monetary or non-monetary benefits of value, except for those benefits required by law, in accordance with FCIC procedures. Compensation does not include any payments related to a line of insurance not reinsured under this Agreement unless such payment is made to circumvent the provisions of this Agreement.

“Contract change date” has the same meaning as the term “contract change date” in the applicable eligible crop insurance contract.

“Controlled Substance” has the meaning provided in 7 C.F.R. § 3021.610.

“Conviction” has the meaning provided in 7 C.F.R. § 3021.615.

“Cooperative association” for the purposes of section 508(b)(5)(B) of the Act (7 U.S.C. § 1508(b)(5)(B)) means a member owned and controlled entity that is recognized by the State in which the entity is doing business as a cooperative related to agriculture.

“Criminal Drug Statute” has the meaning provided in 7 C.F.R. § 3021.625.

“Drug-free Workplace” has the meaning provided in 7 C.F.R. § 3021.635.

“Earned premium rate (EPR)” means the total net book premium earned by all AIPs for the 2008 reinsurance year on all eligible crop insurance contracts for which A&O subsidy was paid by FCIC divided by total liability, as of the January 2010 monthly settlement report.

“Eligible crop insurance contract” means an insurance contract with an eligible producer: (1) covering an agricultural commodity authorized to be insured under the Act and approved for sale by FCIC; (2) with terms and conditions in effect as of the applicable contract change date; (3) that is sold and serviced in accordance with the Act, FCIC regulations, FCIC procedures, and this Agreement; and (4) that has a sales closing date within the reinsurance year.

“Eligible producer” means a person who has an insurable interest in an agricultural commodity, has not been determined ineligible to participate in the Federal crop insurance program, and possesses a United States issued social security number (SSN) or employer identification number (EIN).

“Employee” has the meaning provided in 7 C.F.R. § 3021.640.

“Experienced agent” means an agent who has completed at least one full year of sales and service, and is current on certification requirements as may be required by FCIC.

“Experienced loss adjuster” means a loss adjuster who has completed at least one full year of loss adjustment and is current on certifications as may be required by FCIC.

“FCIC payment date” means the first banking day following the 14th calendar day after FCIC receives the signed, certified monthly or annual settlement report and supporting data from the Company upon which any payment is based.

“FCIC procedures” means the applicable handbooks, manuals, bulletins, memoranda or other written directives issued by FCIC related to an eligible crop insurance contract and this Agreement.

“FSA” has the same meaning as the term “Farm Service Agency” in section 1 of the Common Crop Insurance Policy Basic Provisions.

“Immediate family” means an individual’s father, mother, stepfather, stepmother, brother, sister, stepbrother, stepsister, son, daughter, stepson, stepdaughter, grandparent, grandson, granddaughter, father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, the spouse of the foregoing, and the individual’s spouse.

“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;

- (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.

“Insurable interest” has the same meaning as the term “share” in the applicable eligible crop insurance contract.

“Loan” for purposes of the definition of compensation means a lending agreement that transfers money or other items of value from the Company, or its MGA, to a person on the condition that it will be paid back later. Loans are considered compensation unless:

- (1) Such lending agreement was entered into before July 1, 2010; or
- (2) The terms of such lending agreement are commercially reasonable and the Company annually until the loan has been fully repaid, in the Plan of Operations, certifies that the terms of each lending agreement have not been breached and have not and will not be forgiven.

“Loss adjuster” means an individual who is licensed by a State, or has passed a proficiency testing program approved by FCIC, as applicable, and who verifies information affecting the coverage and makes factual determinations regarding the existence or amount of loss under an eligible crop insurance contract.

“Loss ratio” means the ratio calculated by dividing the ultimate net loss by the net book premium, expressed as a percentage. For example, if \$1 ultimate net loss is paid and 50 cents net book premium is received, this would be expressed as a 200 percent loss ratio.

“Managing General Agent (MGA)” means an entity that meets the definition of managing general agent under the laws of the State in which such entity is incorporated and in every other state in which it operates, or in the absence of such State law or regulation, meets the definition of a managing general agent or agency in the National Association of Insurance Commissioners Managing General Agents Act, or a successor Act.

“Material” means an act or omission that, as determined by FCIC, would: (1) cause FCIC to assume a significant additional risk that it would not otherwise have assumed but for the act or omission; (2) cause the amount paid by or to FCIC to significantly differ from the amount that would otherwise be paid or owed but for the act or omission; (3) likely preclude or make it substantially more difficult to carry out the requirements of the Agreement and FCIC procedures; or (4) create a program vulnerability that could cause a payment to be made that would be significantly different than would otherwise be made if the act or omission had not occurred.

“Net book premium” means the premium amount established by FCIC for eligible crop insurance contracts in accordance with section 508(d)(2) of the Act (7 U.S.C. § 1508(d)(2)), less any amount for A&O subsidy.

“New agent” means an agent who has not completed one full year of sales and service.

“New loss adjuster” means a loss adjuster who has not completed one full year of loss adjustment.

“Person” means an individual or legal entity.

“Personally Identifiable Information” means any information about an individual maintained by the Company and its affiliates, including but not limited to, education, financial transactions, medical history, and criminal or employment history and information which can be used to distinguish or trace an individual’s identity, such as name, social security number, date and place of birth, mother’s maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual.

“Plan of insurance” means a broad category of crop insurance contracts such as actual production history (APH), yield protection, revenue protection, etc. that has been designated by FCIC as a separate plan of insurance.

“Plan of Operations” means the documents and information the Company shall submit in accordance with section IV(f)(2), Appendix II, and applicable FCIC procedures.

“Policy Acceptance and Storage System (PASS)” means any RMA or FCIC approved electronic data processing (EDP) system that receives and accepts or rejects Company-submitted data for eligible crop insurance contracts.

“Policy Issuing Company (PIC)” means an insurance company that issues eligible crop insurance contracts reinsured under this Agreement on behalf of the Company and cedes 100 percent of the premiums and associated losses to the Company.

“Policyholder” means an eligible producer who has been issued one or more eligible crop insurance contracts.

“Producer premium” means that portion of the premium for an eligible crop insurance contract payable by the policyholder.

“Protected Information” means any Personally Identifiable Information about a policyholder, or information about the policyholder’s farming operation or insurance policy, acquired from the policyholder, USDA, the Comprehensive Information Management System, or the policyholder’s previous or current approved insurance provider or agent that is protected from disclosure by the Privacy Act of 1974 (5 U.S.C. § 552a), section 502(c) of the Act (7 U.S.C. § 1502(c)), or any other applicable Federal statute. This definition includes all hard copy or electronic information.

“Rebate” means to pay, allow, or give, or offer to pay, allow or give, directly or indirectly, either as an inducement to procure insurance or after insurance has been procured, any benefit (including money, goods or services for which payment is usually made [except any service provided to fulfill an obligation of the Company under this Agreement]), discount, abatement, credit, or reduction of the premium named in the insurance policy and any other valuable consideration or inducement not specified in the policy.

“Records” means documentation in any form that relates to an eligible crop insurance contract or this Agreement. Such documentation includes original signed documents, or legible electronic images of the original signed documents, any other documents, or legible electronic images of any other documents, and electronic information either produced by the Company or an affiliate or obtained from outside sources or the policyholder that are utilized by the Company or an affiliate to establish, calculate, verify or determine a policyholder’s program eligibility, insurance coverage, APH yields, premium, liability, or indemnity.

“Reinsurance year” means the term of this Agreement beginning July 1 and ending on June 30 of the following year and, for reference purposes, identified by reference to the year containing June.

“Relative” means an individual who: (1) is immediate family; (2) resides in the household of; or (3) engages in business with respect to, a farming operation with the person in question, regardless of whether or not the individual is immediate family.

“Retained” as applied to ultimate net losses, net book premium, or book of business, means the remaining liability for ultimate net losses and the right to associated net book premiums after all reinsurance ceded to FCIC under this Agreement.

“Risk subsidy” means that portion of the premium for an eligible crop insurance contract paid by FCIC on behalf of the policyholder.

“Sales closing date” has the same meaning as the term “sales closing date” in the applicable eligible crop insurance contract.

“Sales supervisor” means any person having immediate or day-to-day supervisory control, management or oversight authority of the activities of sales agents or sales agency employees on behalf of the Company.

“Satisfactory performance record” means a record of performance that demonstrates substantial conformity with applicable requirements, as specified in section II(a)(9).

“Satisfactory work performance” means the work of the agent, loss adjuster, or other affiliate that is evaluated annually and found to be in compliance with the requirements of this Agreement.

“Service provider” means managing general agents, and any other entity (other than an agent or agency) who issues or services eligible crop insurance contracts; develops, operates or maintains the Information Technology systems or prepares or transmits data; or, who on a regional, State or other area basis, provides loss adjustment services. Regardless of any other factor, a service provider is an affiliate.

“Signature” means the affixing of a person's name in a distinctive way as a form of identification or authorization, including in an electronic or digital form as approved by FCIC.

“State Group 1” means Illinois, Indiana, Iowa, Minnesota, and Nebraska.

“State Group 2” means Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Kansas, Kentucky, Louisiana, Michigan, Missouri, Mississippi, Montana, North Carolina, North Dakota, New Mexico, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, and Wisconsin.

“State Group 3” means Alaska, Connecticut, Delaware, Hawaii, Maine, Massachusetts, Maryland, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

“Subagent” means any individual: (1) licensed by a State in which an eligible crop insurance contract is sold and serviced for the reinsurance year; and (2) who provides on behalf of an Agent any sales or service, or assistance with sales and service, for some or all of the Agent's eligible crop insurance contract(s).

“Total liability” means the amount of liability for all eligible crop insurance contracts written by all AIPs for the 2008 reinsurance year for which A&O subsidy was paid by FCIC, as of the January 2010 monthly settlement report.

“Trade association” means an entity recognized by the State in which the entity is doing business as a trade association and shall not include an organization that is formed for the purposes of providing insurance.

“Transaction cutoff date” for weekly data reporting is 8 p.m. Central time on Friday of each week and for monthly data reporting is 8 p.m. Central time on Friday after the first Sunday of the month.

“Ultimate net loss” means the amount paid by the Company under any eligible crop insurance contract reinsured under this Agreement in settlement of any claim and in satisfaction of any judgment, arbitration award, or mediation (including any interest awarded as specified in section XI(e)(1) of Appendix I) rendered on account of a claim under an eligible crop insurance contract, less any recovery or salvage by the Company.

“Underwriting” means the determination by the Company that all terms and conditions of eligibility and coverage have been met to qualify the policy as an eligible crop insurance contract.

“Underwriting Capacity Manager (UCM)” means an FCIC system that monitors the amount of insurance authorized to be insured or reinsured, and accepts or rejects the application of an eligible producer based on the availability of such amount of insurance, if limits have been placed by Federal legislation or FCIC on the amount of insurance authorized to be insured or reinsured.

“Underwriting gain” means the amount by which the Company’s share of retained net book premium exceeds its share of retained ultimate net losses.

“Underwriting loss” means the amount by which the Company’s share of retained ultimate net losses exceeds its share of retained net book premium.

“Verification” means the determination of whether information submitted is true and accurate through independent third parties or independent documentation in accordance with FCIC procedures. With respect to certifications, asking the policyholder whether the information is true and accurate does not constitute verification.

“Written Agreement” has the same meaning as the term “written agreement” in the applicable eligible crop insurance contract.

SECTION II. REINSURANCE

- (a) General Terms
 - (1) For the Company to receive reinsurance, A&O subsidy, CAT LAE, and risk subsidy under this Agreement, an insurance contract must qualify as an eligible crop insurance contract, except as otherwise specified in this Agreement.
 - (2) Notwithstanding paragraph (3), applications for eligible crop insurance contracts that are rejected by the UCM, as applicable, will not be eligible for reinsurance, A&O subsidy, CAT LAE, or risk subsidy.
 - (3) Except as specified below, the Company shall offer and market all plans of insurance for all crops in any State where actuarial documents are available in which it writes an eligible crop insurance contract and shall accept and approve applications from all eligible producers. The Company may not cancel an eligible crop insurance contract held by a policyholder so long as the policyholder remains an eligible producer and the Company continues to write eligible crop insurance contracts within the State, except as authorized by FCIC. The Company is not required to offer such plans of insurance as may be approved by FCIC under the authority of section 508(h) of the Act. (7 U.S.C. § 1508(h)). However, if the Company chooses to offer any such plan, it shall offer the plan in all approved states in which it writes an eligible crop insurance contract where such plan is made available and it shall comply with all provisions of this paragraph as to such plan.
 - (4) In exchange for premiums ceded by the Company to FCIC under this Agreement, FCIC will provide reinsurance to the Company with respect to such contracts in accordance with the provisions of this Agreement.
 - (5) A Company and its affiliates are prohibited from providing a rebate except as authorized in section 508(a)(9)(B) of the Act (7 U.S.C. § 1508(a)(9)(B)).
 - (6) A violation of paragraph (5) will result in the denial of reinsurance, A&O subsidy, CAT LAE, and risk subsidy, for all eligible crop insurance contracts for which such violation occurred, and may subject the person who committed or authorized the violation to administrative sanctions, including, but not limited to, disqualification under the Act or applicable regulations.
 - (7) Only the amount of net book premium authorized by FCIC in the approved Plan of Operations, including any amendments under Appendix II, shall be reinsured and subsidized under this Agreement.

- (8) The Company shall have the financial and operational resources, organization, experience, internal controls, and technical skills to meet the requirements, including addressing reasonable risks, associated with the Agreement, including 7 C.F.R. part 400, subpart L, as determined by FCIC.
 - (A) The Company shall provide information necessary to evaluate compliance with this paragraph as often as required by FCIC.
 - (B) The Company shall provide written notice to FCIC of any anticipated change in:
 - (i) Its service providers or the services they provide (e.g., software, software agreements, service agreements, etc.); or
 - (ii) Its, or its affiliates', business organization, operations, finances or the sales expectations of the Company, if such change:
 - (I) Is at variance with the Company's Plan of Operations; or
 - (II) Could affect the Company's ability to perform under the Agreement.
 - (C) If any change referenced in subparagraph (B) occurs, whether FCIC learns of the change by notice from the Company or otherwise:
 - (i) FCIC may require the Company to amend its Plan of Operations; or
 - (ii) The Company may submit to FCIC in writing a request to amend the Plan of Operations.
 - (I) The request must be approved by FCIC in writing before the amended Plan of Operations can become a part of this Agreement.
 - (II) The request will be evaluated in accordance with the FCIC procedures applicable to the original Plan of Operations, except that FCIC will also consider whether FCIC's risk is materially increased.
 - (III) FCIC will not approve a request to amend the Plan of Operations if such amendment would materially

increase the risk of loss to FCIC unless FCIC, at its sole discretion, determines that the amendment arises from an action of FCIC or the U.S. Department of Agriculture that substantially increases the risk of underwriting loss on eligible crop insurance contracts written by the Company.

- (IV) Changes to eligible crop insurance contracts made in accordance with the terms of such contract are not a basis for an amendment to the Plan of Operations.
- (D) If at any time during the reinsurance year FCIC cannot determine that the Company is in compliance with the requirements of this paragraph or FCIC learns that the Company may be in substantial risk for failure to comply with the requirements of this paragraph, the Company shall take corrective actions acceptable to FCIC in accordance with section IV(h)(4), or be subject to the remedies provided for in this Agreement.
- (9) The Company shall demonstrate a satisfactory performance record to obtain an Agreement and continue to hold an Agreement for the reinsurance year. The following will be reviewed to determine whether there is a satisfactory performance record:
 - (A) In the most recent five reinsurance years, the Company and service providers shall demonstrate:
 - (i) There is substantial conformity with the requirements of this Agreement, the regulations and FCIC procedures, as applicable;
 - (ii) Any material deficiency was caused by circumstances beyond the Company's control, and that, as soon as the Company discovered the deficiency, the Company took timely and appropriate corrective action;
 - (iii) There was no material misconduct on the part of the Company or its service providers; and
 - (iv) To the satisfaction of FCIC, any other mitigating factors that would prove, notwithstanding any identified deficiency, the Company has a satisfactory performance record;

- (B) Whether the Company can, to the satisfaction of FCIC, demonstrate the ability to comply with the requirements of paragraph (8);
 - (C) Whether the Company can demonstrate the ability to fulfill the requirements under this Agreement under various risk assessment scenarios, including, but not limited to, significant nationwide losses, the loss or failure of a service provider, the threats and risks outlined in section VI of Appendix II, or other risks as identified by FCIC; and
 - (D) Whether FCIC or a State has identified any material deficiencies that may raise questions or concerns regarding the Company's ability to meet the requirements of this Agreement.
- (10) If the Company previously has not been an AIP, the Company and its service providers shall demonstrate to the satisfaction of FCIC that it can achieve and maintain a satisfactory performance record consistent with paragraph (9).
 - (11) Failure to meet the conditions stated in paragraphs (8), (9), or (10), may subject the Company to appropriate remedies in this Agreement, including, but not limited to, denial of an Agreement, suspension of the Agreement or a reduction in the net book premium the Company is authorized to write.
 - (12) Unless otherwise specifically approved by FCIC in advance in writing, the Company may only delegate its authority or control over the designation of eligible crop insurance contracts to reinsurance funds to its managing general agent and the Company shall include the delegation in its Plan of Operation.
 - (13) Failure of the Company to comply with the provisions of this Agreement, including, but not limited to, timely submission of data and reports, does not excuse or delay the Company's requirement to pay any amount due to FCIC by the dates specified herein.
 - (14) Neither the Company nor its affiliates shall assess service fees or additional charges on eligible crop insurance contracts reinsured and subsidized under this Agreement except as authorized by the Act or approved by FCIC in writing.
- (b) Reinsurance
 - (1) The Company, in accordance with its Plan of Operations, may designate an eligible crop insurance contract to the Assigned Risk Fund by State.

Any eligible crop insurance contract not specifically designated by the Company to the Assigned Risk Fund will automatically be assigned to the Commercial Fund by State.

- (2) Unless otherwise specified in Appendix III, if the Company elects to designate eligible crop insurance contracts to the Assigned Risk Fund, it shall do so not later than the transaction cutoff date for the week containing the 30th calendar day after the sales closing date for the eligible crop insurance contract, except:
 - (A) In the case of written agreements requiring annual FCIC approval or for the initial year of an eligible crop insurance contract associated with a written agreement only (excluding written agreements specified in Appendix III), not later than the transaction cutoff date for the week containing the 30th calendar day after FCIC approval;
 - (B) For the initial year of application for any agricultural commodity without a fixed sales closing date, the later of the transaction cutoff date for the week containing the 30th calendar day after the eligible producers signature date on the application, or the transaction cutoff date for the week containing the 30th calendar day prior to the cancellation date; and
 - (C) For the subsequent year of insurance for any agricultural commodity without a fixed sales closing date, the transaction cutoff date for the week containing the 30th calendar day prior to the cancellation date for the previous year.
- (3) Assigned Risk Fund Retention
 - (A) The Company shall retain a 20 percent interest in premium and associated ultimate net losses in the Assigned Risk Fund in each State. The remainder is ceded to FCIC.
 - (B) The associated net book premium of eligible crop insurance contracts assigned to the Assigned Risk Fund shall not exceed 75 percent of the Company's net book premium in each State.
 - (C) Unless otherwise specified in the Agreement, in the event the percentage of net book premium for eligible crop insurance contracts in the Assigned Risk Fund exceeds 75 percent of the aggregate net book premium for any State, the amount of premiums and associated liabilities in the Assigned Risk Fund will be reduced pro-rata to 75 percent and the excess will be assigned by FCIC to the Commercial Fund for that State.

(4) Commercial Fund Retention

- (A) The Company shall retain at least a 35 percent interest in premium and associated ultimate net losses in the Commercial Fund in each State. The remainder shall be ceded to FCIC.
- (B) The retention percentage for the Commercial Fund in each State shall be made in 5 percent increments and designated in the Company's Plan of Operations according to Appendix II.

(5) Underwriting Loss

(A) Commercial Fund

After the retentions under paragraph (4), the amount of underwriting loss retained by the Company for the Commercial Fund will be calculated within each State as the sum of the following:

- (i) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 100 percent and is less than or equal to 160 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) The lesser of the Company's actual loss ratio or 160 percent, minus 100 percent; and
 - (III) The following percentage for the applicable State Group:

State Group 1	65.0 percent
State Groups 2 and 3	42.5 percent
- (ii) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 160 percent and is less than or equal to 220 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) The lesser of the Company's actual loss ratio or 220 percent, minus 160 percent; and

- (III) The following percentage for the applicable State Group:

State Group 1	45.0 percent
State Groups 2 and 3	20.0 percent

- (iii) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 220 percent and is less than or equal to 500 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:

- (I) Its retained net book premium;
- (II) The lesser of the Company's actual loss ratio or 500 percent, minus 220 percent; and
- (III) The following percentage for the applicable State Group:

State Group 1	10.0 percent
State Groups 2 and 3	5.0 percent

- (iv) FCIC will assume 100 percent of that portion of the underwriting loss amount for which the Company's loss ratio exceeds 500 percent.

(B) Assigned Risk Fund:

After the retentions under paragraph (3), the amount of the underwriting loss retained by the Company for the Assigned Risk Fund will be calculated within each State as the sum of the following:

- (i) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 100 percent and is less than or equal to 160 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:
- (I) Its retained net book premium;
- (II) The lesser of the Company's actual loss ratio or 160 percent, minus 100 percent; and
- (III) 7.5 percent.

- (ii) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 160 percent and is less than or equal to 220 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) The lesser of the Company's actual loss ratio or 220 percent, minus 160 percent; and
 - (III) 6.0 percent.
 - (iii) For that portion of the underwriting loss amount for which the Company's loss ratio exceeds 220 percent and is less than or equal to 500 percent, the Company shall retain an amount of the underwriting loss equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) The lesser of the Company's actual loss ratio or 500 percent, minus 220 percent; and
 - (III) 3.0 percent.
 - (iv) FCIC will assume 100 percent of that portion of the underwriting loss amount for which the Company's loss ratio exceeds 500 percent.
- (6) Underwriting Gain
 - (A) Commercial Fund

After the retentions under paragraph (4), the amount of underwriting gain retained by the Company for the Commercial Fund will be calculated within each State as the sum of the following:

 - (i) For that portion of the underwriting gain amount for which the Company's loss ratio is less than or equal to 100 percent but is greater than or equal to 65 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:
 - (I) Its retained net book premium;

(II) 100 percent minus [the greater of the Company's actual loss ratio or 65 percent]; and

(III) The following percentage for the applicable State Group:

State Group 1	75.0 percent
State Groups 2 and 3	97.5 percent

(ii) For that portion of the underwriting gain amount for which the Company's loss ratio is less than 65 percent but is greater than or equal to 50 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:

(I) Its retained net book premium;

(II) 65 percent minus [the greater of the Company's actual loss ratio or 50 percent]; and

(III) The following percentage for the applicable State Group:

State Group 1	40.0 percent
State Groups 2 and 3	40.0 percent

(iii) For that portion of the underwriting gain amount for which the Company's loss ratio is less than 50 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:

(I) Its retained net book premium;

(II) 50 percent minus the Company's actual loss ratio; and

(III) The following percentage for the applicable State Group:

State Group 1	5.0 percent
State Groups 2 and 3	5.0 percent

(B) Assigned Risk Fund

After the retentions under paragraph (3), the amount of underwriting gain retained by the Company for the Assigned Risk

Fund will be calculated within each State as the sum of the following:

- (i) For that portion of the underwriting gain amount for which the Company's loss ratio is less than or equal to 100 percent but is greater than or equal to 65 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) 100 percent minus [the greater of the Company's actual loss ratio or 65 percent]; and
 - (III) 22.5 percent.
 - (ii) For that portion of the underwriting gain amount for which the Company's loss ratio is less than 65 percent but is greater than or equal to 50 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) 65 percent minus [the greater of the Company's actual loss ratio or 50 percent]; and
 - (III) 13.5 percent.
 - (iii) For that portion of the underwriting gain amount for which the Company's loss ratio is less than 50 percent, the Company shall retain an amount of the underwriting gain equal to the product of the following:
 - (I) Its retained net book premium;
 - (II) 50 percent minus the Company's actual loss ratio; and
 - (III) 3.0 percent.
- (7) The Company's cumulative underwriting gain or loss shall be determined by summing the net underwriting gains or losses for all States for the Commercial and Assigned Risk Funds.

(8) Net Book Quota Share

- (A) The Company shall cede to FCIC 6.5 percent of its cumulative underwriting gain or loss calculated in paragraph (7) and the associated premium and losses with such amount.
- (B) After the cession in subparagraph (A):
 - (i) Any underwriting gain due the Company will be paid by FCIC to the Company at annual settlement.
 - (ii) Any underwriting loss of the Company will be paid to FCIC on each monthly settlement report for which there is an underwriting loss.

(9) Disbursement of Gains from the Net Book Quota Share

- (A) If the sum of all AIPs Net Book Quota Share, calculated in accordance with paragraph (8), results in a net underwriting gain to be paid to FCIC for the reinsurance year, a portion of any such net underwriting gain will be disbursed to the Company as a payment equal to the product of the following:
 - (i) The ratio of the Company's total net book premium for additional coverage eligible crop insurance contracts for all funds in State Group 3 relative to total net book premium for additional coverage eligible crop insurance contracts of all AIPs for all funds in State Group 3; and
 - (ii) 1.5 percent of the sum of all underwriting gains and losses calculated in accordance with paragraph (7) for all AIPs for the reinsurance year.
- (B) Any disbursement under this paragraph will be made at annual settlement.

(10) Contingency Fund

- (A) The Contingency Fund, which is part of the insurance fund authorized under section 516(c) of the Act (7 U.S.C. § 1516(c)), is used to offset expenses incurred by FCIC to administer a Company's book of business in the event of Company supervision, rehabilitation, insolvency or operational deficiency, or an equivalent event, as determined by FCIC, or the Agreement is terminated for cause.

- (B) Any amounts owed to FCIC by the Company in accordance with sections II(a)(6), II(b)(12), IV(b)(7), IV(h), and IV(j)(4) will be accounted for in the Contingency Fund.
- (11) The Company may reinsure its liability for ultimate net losses remaining after all retentions, designations, and assignments under this Agreement. Insurance companies that qualify as PICs are not precluded from entering into reinsurance arrangements with the Company. The Company shall inform FCIC in writing of all reinsurance arrangements that relate to eligible crop insurance contracts. Reinsurance arrangements, unless otherwise specified by FCIC in writing, must meet the definition of, and the standards applicable to:
- (A) Reinsurance in the National Association of Insurance Commissioners (NAIC) Credit for Reinsurance Model law, or a NAIC model successor law;
 - (B) Standards for reinsurance under the NAIC Accounting Practices and Procedures Manual including any revisions or updates; and
 - (C) Any other relevant standards developed by the NAIC for credit for reinsurance.
- (12) In addition to other remedies provided in this Agreement, FCIC may, at its sole discretion, offer additional reinsurance beyond what is otherwise provided in this Agreement whenever the Company reports an amount of net book premium greater than the amount FCIC has authorized, in accordance with Appendix II. FCIC may cause the underwriting gain or loss after the cession determined in paragraph (8)(A), payable to or by the Company, to be reduced according to the ratio of the excess net book premium to the total reported net book premium. The excess will then be reinsured under this Agreement. The Company agrees to pay FCIC a reinsurance premium equal to 5 percent of the excess net book premium whenever this provision applies.

SECTION III. SUBSIDIES, EXPENSES, FEES, AND PAYMENTS

- (a) Subsidies and Expenses
 - (1) Risk subsidy shall be determined in accordance with the Act and will be provided on behalf of policyholders to the Company on the monthly settlement report specified in paragraph (2)(B) below.
 - (2) A & O Subsidy and CAT LAE

- (A) Notwithstanding the provisions of this section, under no circumstances will A&O subsidy or CAT LAE be paid in excess of the amounts authorized by the Act.
- (B) A&O subsidy and CAT LAE will be paid to the Company after the Company submits, and FCIC accepts, acreage reports, or other similar reports (e.g., preliminary tonnage report for eligible raisin crop insurance contracts, or inventory value reports for nursery and clam crop insurance contracts, annual farm report for eligible AGR crop insurance contracts). The initial payment to the Company of A&O subsidy and CAT LAE will be based on information reported on the September monthly settlement report following the end of the reinsurance year, and will be adjusted monthly thereafter.
- (C) For any eligible crop insurance contract for CAT coverage, A&O subsidy will be 0.0 percent of net book premium; for CAT LAE, 6.0 percent of the net book premium.
- (D) For eligible crop insurance contracts with additional coverage that provide coverage under an area-based, or similar plan of insurance, the A&O subsidy will be:
 - (i) Except as provided in clause (ii), 12.0 percent of the net book premium for such eligible crop insurance contracts.
 - (ii) For area-based or similar plans of insurance that were not widely available as of the 2008 reinsurance year, 20.1 percent of the net book premium for such eligible crop insurance contracts.
- (E) For an agricultural commodity in a county for which FCIC did not establish premium rates in the actuarial data master file for the 2010 reinsurance year and excluding eligible crop insurance contracts subject to subparagraphs (C) and (D):
 - (i) For additional coverage eligible crop insurance contracts that provide coverage under a revenue plan of insurance that can increase liability whenever the market price at the time of harvest exceeds the market price at the time of planting, 18.5 percent of the net book premium.
 - (ii) For all other eligible crop insurance contracts, 21.9 percent of the net book premium.
- (F) Subject to the limitations provided in subparagraphs (G) and (H) and excluding eligible crop insurance contracts subject to

subparagraphs (C), (D), and (E), A&O subsidy will be determined and paid as set forth below.

- (i) For additional coverage eligible crop insurance contracts that provide coverage under a revenue plan of insurance that can increase liability whenever the market price at the time of harvest exceeds the market price at the time of planting, 18.5 percent of the net book premium.
 - (ii) For all other eligible crop insurance contracts, 21.9 percent of the net book premium.
- (G) Notwithstanding the provisions contained in subparagraph (F):
 - (i) If the sum of the A&O subsidies for all AIPs for all eligible crop insurance contracts subject to subparagraph (F) for the reinsurance year exceeds the product of the following:
 - (I) Total liability;
 - (II) EPR;
 - (III) Average A&O rate;
 - (IV) 1.0509; and
 - (V) 0.615; then
 - (ii) The total A&O subsidy paid to the Company for eligible crop insurance contracts subject to subparagraph (F) will be equal to the product of:
 - (I) The total A&O subsidy calculated for the Company according to subparagraph (F); and
 - (II) The ratio of clause (i) above divided by the sum of the A&O subsidies for all AIPs for all eligible crop insurance contracts calculated according to subparagraph (F) for the reinsurance year.
 - (iii) Any adjustment to the A&O subsidy amount determined in accordance with subparagraph (G) will be made on the monthly settlement report for the applicable reinsurance year and adjustments will end on the first annual settlement report for the reinsurance year.

- (H) Notwithstanding the provisions contained in subparagraph (F):
 - (i) If the sum of the A&O subsidies for all AIPs for all eligible crop insurance contracts subject to subparagraph (F) for the reinsurance year is less than the product of the following:
 - (I) Total liability;
 - (II) EPR;
 - (III) Average A&O rate;
 - (IV) 1.0509; and
 - (V) 0.489; then
 - (ii) The total A&O subsidy paid to the Company for eligible crop insurance contracts subject to subparagraph (F) will be equal to the product of:
 - (I) The total A&O subsidy calculated for the Company according to subparagraph (F); and
 - (II) The ratio of clause (i) above divided by the sum of the A&O subsidies for all AIPs for all eligible crop insurance contracts calculated according to subparagraph (F) for the reinsurance year.
 - (iii) Any adjustment to the A&O subsidy amount determined in accordance with subparagraph (H) will be made on the first annual settlement report for the reinsurance year.
- (I) Notwithstanding subparagraphs (E) through (H), FCIC will pay additional A&O subsidy for eligible crop insurance contracts in States in which the loss ratio is greater than 120 percent of the total net book premium written in the State by all AIPs as follows:
 - (i) FCIC will pay an additional A&O subsidy amount equal to 1.15 percent times the net book premium for eligible crop insurance contracts subject to subparagraphs (E) and (F) and calculated according to subparagraphs (E) and (F); and
 - (ii) Any adjustment to the loss ratio for a State will be made on the monthly settlement report for the applicable reinsurance year and adjustments will end subject to the limitations for

submitting data through automated systems, in accordance with Appendix III.

- (J) In addition to other provisions of this Agreement, the amount of A&O subsidy may be adjusted to a level that FCIC determines to be equitable if issuing or servicing eligible crop insurance contracts involves expenses that vary significantly from the basis used to determine the A&O subsidy under this section.
- (K) The Company, for itself and any persons whose rights are derivative of the Company (including, but not limited to, assigns, successors, and representatives) hereby covenants and agrees that it will not institute or file any judicial or administrative proceeding, or cause the instituting or filing (directly or indirectly) of any judicial or administrative proceeding, or assist any third party that has instituted or filed any judicial or administrative proceeding, against FCIC, RMA, the United States Department of Agriculture, or any officer, agent, or director thereof (collectively, "FCIC"), challenging the legality of the terms and conditions of section III(a). Nothing in the forgoing precludes the Company from responding to a court order. This covenant and agreement may be pleaded by FCIC as a bar or release in the event any such judicial or administrative proceeding is instituted or filed. The Company and FCIC, prior to execution of this Agreement, had disputed the provisions of section III(a). That dispute now has been compromised in a manner mutually acceptable to the Company and FCIC, and, in consideration of that compromise, the Company agrees and covenants as set forth above. The Company shall require its agents to acknowledge in writing that the agents agree to and are bound by the same covenant not to sue contained in this paragraph. Such acknowledgement may be contained in an agent or other agreement.
- (3) The SSNs of all agents and loss adjusters, as applicable, who perform any service or related activity under an eligible crop insurance contract, shall be provided to FCIC in accordance with FCIC procedures. If the applicable SSN is not provided for an eligible crop insurance contract, the Company shall not receive any reinsurance for that eligible crop insurance contract until the appropriate SSN is provided.
- (4) Compensation to persons involved in the direct sale and service of any eligible crop insurance contract under this Agreement, in accordance with FCIC procedures, shall only be paid or provided as follows:
 - (A) All compensation paid by the Company or its MGA shall be in writing, and provided to FCIC upon request.

- (B) Except as provided in subparagraph (C), in any State in which the Company is doing business, the Company, its MGA, or any affiliate shall not pay total compensation in excess of 80 percent of the total amount of A&O subsidy and CAT LAE calculated in accordance with subsection (a)(2) excluding any amounts paid under subsection (a)(2)(I), for such State. The calculation of the 80 percent is based on the amount paid by FCIC on the first annual settlement report for the reinsurance year.
- (C) The Company, its MGA, or any affiliates may only provide compensation in excess of that permitted in subparagraph (B) if:
 - (i) The Company has been paid an underwriting gain under section II(b)(7) on the first annual settlement report for the reinsurance year;
 - (ii) For any State in which the Company is doing business, the total amount of all compensation paid under this subparagraph and subparagraph (B) does not exceed 100 percent of the total amount calculated for A&O subsidy and CAT LAE in accordance with subsection (a)(2), excluding any amounts paid under subsection (a)(2)(I), for such State. The calculation of the 100 percent is based on the amount paid by FCIC on the first annual settlement report for the reinsurance year; and
 - (iii) The total amount of compensation paid under this subparagraph to all persons in all States for the reinsurance year does not exceed:
 - (I) The underwriting gain paid to the Company under section II(b)(7) on the first annual settlement report for the reinsurance year; less
 - (II) Any net book quota share ceded to FCIC by the Company under section II(b)(8) on the first annual settlement report for the reinsurance year; plus
 - (III) Any disbursement of gains from the net book quota share received by the Company from FCIC under section II(b)(9) on the first annual settlement report for the reinsurance year; less
 - (IV) Any amounts obligated by the Company under reinsurance arrangements with entities that are not owned, in whole or in part, and controlled by the

Company subject to section II(b)(11) for the reinsurance year; plus

- (V) Any ceding commissions or other amounts received by the Company for reinsurance arrangements subject to section II(b)(11) for the reinsurance year.

- (E) If FCIC discovers that the Company, its MGA, or affiliate has paid compensation in excess of the amounts allowed in subparagraphs (B) or (C), the Company will be subject to any sanction described in this Agreement or applicable regulations. Any scheme or device to circumvent the limitations in subparagraphs (B) or (C) will be considered a violation of this Agreement.

(b) Administrative Fees

The Company shall remit to FCIC all administrative fees collected in accordance with the applicable eligible crop insurance contract and the following:

- (1) In the event the policyholder is a limited resource farmer as defined in the regulations, the Company shall submit the required information to FCIC and FCIC will waive the applicable fees on the monthly settlement report.
- (2) The Company shall terminate eligible crop insurance contracts if administrative fees are not paid by the date specified in the applicable eligible crop insurance contract for CAT coverage and report such termination to FCIC in accordance with FCIC procedures.
- (3) FCIC will perform debt collection activities for CAT administrative fees that have not been timely paid, provided the Company has followed FCIC procedures.

(c) Payments

- (1) With respect to payments due FCIC from the Company:
 - (A) Except as provided in subparagraph (B), all payments will be netted on the monthly and annual settlement reports with amounts due the Company from FCIC. FCIC will remit amounts due the Company by electronic funds transfer (EFT) on or before the FCIC payment date. Any amounts due FCIC or the Company that are not timely remitted are subject to the interest rate provisions contained in section IV(c), with such interest accruing from the date such payment was due to the date of payment.
 - (B) Amounts due FCIC on the September monthly settlement report following the end of the reinsurance year will be netted with amounts

due the Company on prior reinsurance year reports. The Company must remit amounts due no later than the Company payment date for the September monthly report. The A&O subsidy and CAT LAE shown on the September monthly settlement report following the end of the reinsurance year, will not be netted with amounts due from the Company, but will be paid no later than the third business day of October. All subsequent monthly or annual settlement reports for the reinsurance year will be paid as specified in subparagraph (A).

- (2) In the event that FCIC erroneously rejects data that was correctly submitted by the Company and a payment would be due to the Company if the data had not been rejected, the Company shall be entitled to interest accrued on this amount for the period of such delay, at the rate provided in section IV(c)(1).
- (3) Any funds paid by the Company to FCIC in the compromise and settlement of any dispute between FCIC and the Company in an amount less than FCIC claimed was due will be included on the monthly settlement report without regard to the provisions of section II(b).
- (4) Notwithstanding any other provision of this Agreement, if a review or examination reveals that the Company or its affiliates have committed an error or omission or failed to comply with a term of the Act, this Agreement, regulations, or FCIC procedures, FCIC will provide written notice to the Company within 3 years of the end of the insurance period when the error, omission or failure occurred, if the Company owes a debt to FCIC, unless the error, omission or failure was willful or intentional. The failure to provide timely notice required herein shall only relieve the Company from liability for the debt owed and not for other consequences of the error, omission or failure that address other obligations of the Company, including maintaining a satisfactory performance record. Written notice to the Company under this paragraph will:
 - (A) Describe the failure regarding compliance with a specified term of the Act, this Agreement, the regulations, or FCIC procedures;
 - (B) State that such failure results in an amount being owed to FCIC;
 - (C) Include the crop year and eligible crop insurance contract number(s) for which such failure occurred; and
 - (D) Provide sufficient detail to put the Company on general notice of the type of error, omission or failure alleged (such as failure to properly calculate the approved yield or failure to conduct a pre-acceptance inspection, etc.).

- (5) The Company shall provide written notice, in a form similar to the notice in paragraph (4), to FCIC of any claim that funds may be owed from FCIC to the Company within 3 years after annual settlement of the reinsurance year in which such funds are claimed to be owed. Failure to provide such notice shall relieve FCIC of the obligation to repay any amount that would be owed to the Company. If an investigation by FCIC determines that funds may be owed by FCIC to the Company, written notice does not need to be provided.

SECTION IV. GENERAL PROVISIONS

(a) Collection of Information and Data

- (1) The Company is required to collect and provide to FCIC all SSNs or EINs that are required to be submitted by the policyholder under the eligible crop insurance contract, and the SSNs of all employees, affiliates, and other persons as required by FCIC procedures. SSNs or EINs shall be protected, as prescribed in the Privacy Act of 1974 (5 U.S.C. § 552a), by the Company and all of its affiliates with access to such information.
- (2) In accordance with section 502(c) of the Act (7 U.S.C. § 1502(c)), neither the Company, nor its personnel, or contractors, or affiliates may disclose to the public any information provided by the policyholder unless such disclosure is otherwise required by Federal law.
- (3) All persons who have access to Protected Information or Personally Identifiable Information, including, but not limited to, personnel, contractors, service providers and affiliates of the Company, shall sign a non-disclosure statement, in accordance with reporting and certification requirements contained in section XV of Appendix I.
- (4) The Company and all of its affiliates shall develop, implement, and maintain information controls and systems, including those pertaining to all Protected Information and records, in a manner consistent with the Federal Information Security Management Act (FISMA) (44 U.S.C. § 3541), or any Federal law covering Federal crop insurance information. FISMA is based on an on-going, risk-based process to identify, assess, plan, and strengthen information security. The Company shall make available audit and assessments examining its Information Technology security, both internal and external, to FCIC upon request.
- (5) The Company shall report any loss or unauthorized disclosure of Protected Information or Personally Identifiable Information to FCIC within one hour of discovery of the loss or unauthorized disclosure of such information in accordance with Appendix III, and shall not distinguish between suspected or confirmed losses or disclosures.

(b) Reports

- (1) The Company is required to collect, maintain and submit to FCIC data that FCIC reasonably determines is necessary to the operation of the Federal crop insurance program. Data the Company is required to submit to FCIC shall be certified as accurate, detailed and submitted to FCIC in accordance with FCIC procedures.
- (2) Unless specifically approved by FCIC in writing, FCIC will reject any eligible crop insurance contract originally submitted by the Company after the February monthly transaction cutoff date following the reinsurance year.
- (3) Producer premiums and administrative fees collected by the Company shall be reported to FCIC in accordance with Appendix III.
- (4) The Company shall provide information to FCIC relating to eligible crop insurance contracts of the Company reinsured under this Agreement as specified herein and in Appendix III.
- (5) In addition to any other reporting requirement, the Company shall report the following information regarding each eligible crop insurance contract and have such information be accepted by FCIC not later than the applicable date specified in paragraph (6):
 - (A) All names, SSNs, and EINs the policyholder is required to report under the eligible crop insurance contract;
 - (B) The agricultural commodity to be insured under the eligible crop insurance contract; and
 - (C) The plan of insurance and coverage level, including the price election, elected by the eligible producer.
- (6) Information specified in paragraph (5) must be accepted by FCIC not later than:
 - (A) In cases of written agreements requiring annual FCIC approval or for the initial year of a written agreement (unless otherwise specified in Appendix III), not later than the transaction cutoff date for the week containing the 30th calendar day after FCIC approval;
 - (B) For any renewal or multi-year written agreement (unless otherwise specified in Appendix III), the transaction cutoff date for the week containing the 30th calendar day after the sales closing date for the eligible crop insurance contract;

- (C) For any agricultural commodity without a fixed sales closing date:
 - (i) For the initial year of application, the later of the transaction cutoff date for the week containing the 30th calendar day after the eligible producers signature date, or the transaction cutoff date for the week containing the 30th calendar day after the cancellation date;
 - (ii) For any subsequent year of insurance, the transaction cutoff date for the week containing the 30th calendar day after the cancellation date; and,
 - (D) For all other eligible crop insurance contracts not covered in subparagraphs (A) through (C), the transaction cutoff date for the week including the 30th calendar day after the sales closing date for the eligible crop insurance contract.
- (7) The A&O subsidy applicable to the eligible crop insurance contract determined in accordance with section III(a)(2) will be reduced whenever the information required by paragraph (5) has not been accepted by FCIC or such information is revised after the deadlines set forth in paragraph (6).
- (A) The A&O subsidy for the eligible crop insurance contract will be reduced by:
 - (i) 1 percentage point if the required information is first accepted or revised after the transaction cut-off date for the week containing the 30th calendar day after the sales closing date (or other cancellation, approval, or signature date specified in paragraph (6)), but prior to the transaction cut-off date for the week containing the 60th calendar day;
 - (ii) 2 percentage points if the required information is first accepted or revised after the transaction cut-off date for the week containing the 60th calendar day after the sales closing date (or other cancellation, approval, or signature date specified in paragraph (6)), but prior to the transaction cut-off date for the week containing the 90th calendar day; or
 - (iii) 3 percentage points if the required information is first accepted or revised after the transaction cut-off date for the week containing the 90th calendar day after the sales closing date (or other cancellation, approval, or signature date specified in paragraph (6)).

- (B) The sanctions under this paragraph may be reduced or waived if the delay is caused in whole or in part by FCIC.
 - (C) If the eligible crop insurance contract or FCIC procedures require or allow the policyholder to make an election of, or change to, any information required to be reported under paragraph (5) after the applicable deadline specified in paragraph (6), the A&O subsidy reduction in paragraph (7) will not apply for that eligible crop insurance contract until the weekly transaction cutoff date containing the 30th calendar date after the date the policyholder is required to make such designation, or a determination by the Company in accordance with FCIC procedures, and the dates in paragraph (7)(A)(i), (ii), and (iii) are adjusted accordingly.
- (8) The Summary of Coverage and billing statement provided to the policyholder shall, at a minimum, prominently display each of the following:
 - (A) The amount of risk subsidy paid by FCIC on behalf of the policyholder;
 - (B) The amount of premium and administrative fees due the Company from the policyholder;
 - (C) The amount of A&O subsidy paid by FCIC to the Company on behalf of the policyholder, as calculated in accordance with sections III(a)(2)(D),(E), and (F) and prior to any adjustments made in accordance with sections III(a)(2)(G), (H), or (I); and
 - (D) For purposes of displaying the A&O subsidy adjustment calculated in accordance with section III(a)(2)(I), a footnote stating: “The reported A&O subsidy amount may increase by 1.15 percent of the net book premium, if the loss ratio in the state exceeds 1.20 or may otherwise change if required by the Standard Reinsurance Agreement. However, the amount of premium the policyholder is required to pay will not change.
- (c) Interest
 - (1) Any interest that the Company is required to pay FCIC under the terms of this Agreement will be paid at the simple interest rate of 15 percent per annum.
 - (2) The Company will repay with interest any amount paid to the Company by FCIC that FCIC or the Company subsequently determines was not due.

- (3) FCIC will repay with interest any amount paid by the Company to FCIC, which FCIC subsequently determines was not due.
 - (4) Interest on amounts determined not to be due will begin to accrue on the 31st day after the date that:
 - (A) In the case of amounts owed to the Company, a written notification stating the amount claimed to be owed is provided to FCIC by the Company, as applicable, and end on the date the amount is paid in full; or
 - (B) In the case of amounts owed to FCIC, the Company receives a final determination from FCIC or other written statement from FCIC that a specific amount is owed, as applicable, and end on the date the overpaid amount is paid in full. Appeal by the Company under this Agreement or 7 C.F.R. § 400.169 does not delay the date by which interest starts to accrue.
- (d) Escrow Account
- (1) At the Company's request, FCIC will allow the Company to establish an escrow account in the name of FCIC at a bank designated by the Company, and approved by FCIC, to reimburse the Company for payment of indemnities, prevented planting payments or replant payments to policyholders by the Company. The Company's bank shall pledge collateral as required by 31 C.F.R. § 202 in the amount determined by FCIC.
 - (2) When an escrow account has been established, the Company may request FCIC to fund the escrow account by submitting indemnity data to FCIC in accordance with Appendix III. A request to fund the escrow account shall be deemed certified by an authorized officer or authorized employee of the Company that the information establishing the claim is correct and accurate. If the Company utilizes the escrow process to pay indemnities, prevented planting, or replant payments, the Company shall issue payment to the producer within 3 business days of submitting the request for escrow funding to FCIC.
 - (3) Any Company that elects not to utilize escrow funding will be reimbursed for paid losses validated and accepted on the monthly settlement report.
 - (4) The Company's bank may only draw funds from the escrow account when the instrument or document issued as payment of the indemnity, prevented planting payment or replant payment has cleared the Company's bank account.

- (5) If there is a shortfall of funds in the escrow account, it is the Company's responsibility to deposit funds to cover any shortages.

(e) Supplemental Insurance

- (1) The Company shall not sell a contract of insurance or similar instrument, which is written in conjunction with an eligible crop insurance contract and not reinsured by FCIC, unless the Company has complied with the requirements of 7 C.F.R. § 400.713.
- (2) FCIC will not provide reinsurance for an eligible crop insurance contract if the Company sold a contract of insurance or instrument described in paragraph (1) that FCIC determines to have shifted risk to, or increases the risk of, such eligible crop insurance contract reinsured under this Agreement, or if the Company administers such insurance or instrument in a manner inconsistent with information submitted in accordance with 7 C.F.R. § 400.713.
- (3) The Company shall maintain, and make available at the request of FCIC, the underwriting information pertaining to a contract of insurance or instrument described in paragraph (1), including, but not limited to, the policy number and all SSNs and EINs related to the eligible crop insurance contract.
- (4) If the terms of a contract of insurance or instrument described in paragraph (1) become inconsistent with the terms of the eligible crop insurance contract causing payments to be made under the eligible crop insurance contract that would not otherwise be payable, reinsurance will be denied.

(f) Insurance Operations

(1) General

- (A) The Company shall verify yields and other information used to establish insurance guarantees and indemnity payments in accordance with the regulations and FCIC procedures.
- (B) The Company shall use contracts, standards, FCIC procedures, methods, and instructions as authorized by FCIC in the sale and service of eligible crop insurance contracts.
- (C) The Company shall comply with standards and FCIC procedures to create forms used in the sales and service of any eligible crop insurance contract.

(2) Plan of Operations

- (A) The Company's complete Plan of Operations shall be submitted to FCIC by April 1 preceding the reinsurance year, unless otherwise authorized by FCIC. The Plan of Operations shall meet the requirements of this Agreement, including, but not limited to, the format and all requirements specified in Appendix II, to be considered a complete Plan of Operations.
- (B) The Plan of Operations contains integral terms to this Agreement so no Agreement exists for a reinsurance year until the Plan of Operation has been approved by FCIC. Once approved by FCIC, the Company's Plan of Operations becomes an Appendix to the Agreement.
- (C) If the Plan of Operations is not approved by FCIC by the July 1 start of the reinsurance year:
 - (i) FCIC may, at its sole discretion, provide the Company with written notice:
 - (I) Agreeing to reinsure and pay CAT LAE, A&O subsidy and risk subsidy for eligible crop insurance contracts that are renewed or sold by or on behalf of the Company while FCIC continues its evaluation of the Plan of Operations: or
 - (II) Directing the Company and any of its service providers and agents to cease the renewal or sale of eligible crop insurance contracts until FCIC determines whether to approve or disapprove the Plan of Operations.
 - (ii) Any eligible crop insurance contract sold or renewed after FCIC has provided written notice that the Company shall cease the renewal or sale of eligible crop insurance contracts until FCIC determines whether to approve or disapprove the Plan of Operations will not be provided reinsurance, A&O subsidy, CAT LAE, or risk subsidy.
 - (iii) If FCIC authorizes the continued renewal or sale of eligible crop insurance contracts by or on behalf of the Company while FCIC completes its evaluation of the Plan of Operations and:

- (I) Approves the Plan of Operations, the renewed and sold eligible crop insurance contracts will be reinsured under the newly approved Plan of Operations; or
 - (II) Disapproves the Plan of Operations, the eligible crop insurance contracts renewed or sold during the evaluation period will be transferred to FCIC and will be processed in accordance with section IX of Appendix I.
- (D) The Company shall be in compliance with the Freedom to E-File Act and section 508 of the Rehabilitation Act. The Company shall file its plan for meeting the requirement of these statutory provisions, in accordance with Appendix II.
- (g) Access to Records and Operations
 - (1) Upon written request, unless otherwise authorized by the FCIC Manager, the Company shall provide FCIC reasonable access to its offices, personnel, and all records that pertain to the business conducted under, or the requirements contained in, this Agreement, including, but not limited to, access to records on the operation of the Company, at any time during normal business hours.
 - (2) The Company shall enter into, and enforce agreements to ensure that its affiliates provide FCIC and the Company with access to its affiliates' offices, personnel, and all records that pertain to the business conducted under, or the requirements contained in, this Agreement, including, but not limited to, access to records on the operation of such affiliate, at any time during normal business hours.
 - (3) The Company shall designate in its Plan of Operations where the records pertaining to the business conducted under this Agreement are located. In the case of electronic records, the location of computers or servers may be deemed the designated location.
 - (4) Records described in this subsection shall be retained until 3 years after the last day on which records may be submitted through automated systems in accordance with Appendix III.
 - (5) FCIC may require the Company and its affiliates to retain certain specified records for a longer period than required in paragraph (4) if it so notifies the Company in writing at any time before the expiration of the applicable 3-year period. If the applicable 3-year period has expired and the Company or its affiliate still has the records in their possession, FCIC can

require that such records be retained for a longer period by providing written notice.

- (6) Notwithstanding paragraph (4), records regarding an unsatisfied debt of a policyholder shall be retained until the debt is satisfied or is discharged through bankruptcy proceedings.
- (7) For the purpose of this subsection the term "FCIC" includes all U.S. Government agencies including, but not limited to, USDA Office of Inspector General, the Government Accountability Office, and the Department of Labor.

(h) Compliance and Corrective Action

- (1) The Company and its affiliates shall comply with the provisions of this Agreement, as applicable. The Company is solely responsible for the conduct and performance of its personnel and affiliates with respect to the obligations imposed by this Agreement and FCIC procedures. Liability for damages incurred, to the extent it is caused by an error or omission or failure to comply with this Agreement or applicable FCIC procedures, is the sole responsibility of the Company. The assumption of liability under this section is only for the purpose of this Agreement and may not be relied upon by any person or entity not a part to this Agreement for any purpose.
- (2) In addition to paragraph (1), the Company and its affiliates shall comply with FCIC procedures, and the applicable laws of the States in which the Company is conducting business under this Agreement, unless preempted in accordance with section IV(o).
- (3) The Company shall fully cooperate with FCIC in the review or examination of the Company or its affiliates regarding compliance with the requirements of the Agreement and FCIC procedures. The Company shall include in its agreements with its affiliates provisions that ensure that such affiliates agree to cooperate and assist FCIC in the reviews and examinations conducted in accordance with this Agreement.
- (4) In addition to any other remedies available under this Agreement, if FCIC finds that the Company has not complied with a provision of this Agreement, and the Company has not taken appropriate steps to correct the act of non-compliance, FCIC may, at its sole discretion, require that the Company take corrective action within 45 days of the date of making a written demand. The Company shall provide FCIC with satisfactory documentary evidence of the corrective action taken to address the act of non-compliance.

- (5) If a State makes a determination that the Company or its affiliates are not in compliance with state law and FCIC determines such non-compliance is material to the Company's obligations under this Agreement, and all appeals have been exhausted, FCIC will take remedial actions, which may include suspension or termination of this Agreement in accordance with section IV(i) and (j), denial of reinsurance, A&O subsidy, CAT LAE, and risk subsidy, for all eligible crop insurance contracts for which such non-compliance occurred, in whole or in part, depending on the materiality or severity of the non-compliance.
- (6) In addition to any other remedies in this Agreement, if FCIC determines that the Company or its affiliate willfully violated the Agreement or FCIC procedures, FCIC reserves the right to deny reinsurance, A&O subsidy, CAT LAE, and risk subsidy for any insurance contract that is sold or serviced in violation of the terms of this Agreement or FCIC procedures.
- (7) Whenever a failure to comply with a provision of this Agreement or FCIC procedures by the Company or its service providers, agents, and loss adjusters materially affects the existence or amount of the indemnity, prevented planting payment, replant payment, or premium for an eligible crop insurance contract (including, but not limited to, incorrect APH calculations; improper adjustment of losses; sales agents or sales supervisors involved in the adjustment of losses; failure to verify eligibility for insurance, acreage planted or prevented from being planted, insurable shares, insurable causes of loss, or unit division) and FCIC is:
 - (A) Able to determine the correct amount of indemnity, prevented planting payment, replant payment, or premium, FCIC, except as provided in paragraph (8)(A), will deny A&O subsidy, CAT LAE, and risk subsidy or reduce the A&O subsidy or CAT LAE for the eligible crop insurance contract based on the severity of the failure, and require the Company:
 - (i) To report to FCIC through PASS the correct amount of indemnity, prevented planting payment, replant payment, and premium;
 - (ii) To pay to the policyholder any amount of underpaid indemnity, prevented planting payment, replant payment, or overpaid premium; and
 - (iii) To pay to FCIC any overpaid indemnity, prevented planting payment, replant payment, or underpaid premium and any subsidy that exceeds the amount the Company or policyholder was entitled to receive.

- (B) Unable to determine the correct amount of indemnity, prevented planting payment, replant payment, or premium that should have been paid, FCIC shall deny reinsurance, A&O subsidy, CAT LAE and risk subsidy, in whole or in part, based on the severity of the failure, unless the Company can provide documentary evidence satisfactory to FCIC that shows the correct amount of the indemnity, prevented planting payment, replant payment, or premium.
- (8) The Company provides valuable program delivery services for which payment is made in the form of A&O subsidy and CAT LAE. FCIC and the Company agree that FCIC is damaged by a failure of the Company or its service providers, agents, and loss adjusters to provide services or to comply with a provision of this Agreement or FCIC procedures, and that the value of such service or failure to comply is difficult to determine because the damages are uncertain and the amount of service or failure to comply is difficult to quantify. FCIC and the Company agree that in view of the difficulty of determining the value of such service, the amounts stated below are reasonable estimates of the value. In the event there is a pattern or practice of failing to comply with the Agreement or FCIC procedures and FCIC has determined the Company or its service providers, agents, and loss adjusters have failed to provide services or to comply with a provision of this Agreement or FCIC procedures and such failure has occurred:
 - (A) During the sales and service, claims, or operations process, the Company agrees to pay FCIC an amount up to the entire A&O subsidy or CAT LAE, as applicable, on all crop insurance contracts affected by the failure based on the materiality or severity of the failure, as determined by FCIC; and
 - (B) If a pattern or practice under this paragraph also involves overpaid indemnities that may be collected under paragraph (7)(A), any reduction in A&O subsidies and CAT LAE will be imposed under this paragraph, not paragraph (7)(A).
- (9) Failure of the Company or its affiliates to cease or desist any activity or to take a specific action, as required by FCIC in writing, will subject the Company or its affiliates to the sanctions in section 515(h) of the Act (7 U.S.C. § 1515(h)).
- (10) Any payment due from, or paid by, the Company under this subsection shall be in addition, and without prejudice, to any other rights of FCIC, or the United States. FCIC may, at its sole discretion, waive, reduce or delay repayment if such actions are needed for continued delivery of the program.

- (11) Failure of the Company to make payment in accordance with the provisions of this Agreement, or with provisions of any separate written agreement to make such payment between the Company and FCIC, shall subject the Company to the remedies available under this Agreement.
- (12) Nothing in this subsection prevents FCIC from suspending or terminating this Agreement in accordance with section IV(i) and (j).
- (13) Nothing in this Agreement precludes the government from taking any actions authorized by law relating to fraud, waste, or abuse.

(i) Suspension

In addition to the other remedies available in this Agreement, FCIC may suspend this Agreement for cause due to a material breach or failure to perform or comply with obligations under this Agreement. If this Agreement is suspended for cause:

- (1) Except as provided in paragraph (3), the suspension will remain in effect until FCIC determines that the error or omission has been corrected and that steps have been taken to prevent its occurrence.
- (2) While suspended, the Company shall not, as determined by FCIC:
 - (A) Sell, or authorize to be sold, any new crop insurance contracts;
 - (B) Renew, or authorize the renewal of, existing eligible crop insurance contracts; or
 - (C) Service any eligible crop insurance contracts in effect at the time of the suspension (A&O subsidy and CAT LAE will continue to be paid only for those eligible crop insurance contracts that FCIC requires to be serviced).
- (3) If the eligible crop insurance contracts are not serviced as required by paragraph (2)(C), or errors or omissions are not corrected within the timeframe specified by FCIC, the suspension will remain in effect and this Agreement will automatically terminate at the end of the reinsurance year, or an earlier date if notice of termination is provided by FCIC, and A&O subsidy and CAT LAE will be denied.
- (4) Notwithstanding any other provision of this Agreement, during the period of suspension, the Company may submit a request to FCIC for approval by FCIC to not renew some or all of the existing eligible crop insurance contracts. Each request shall contain supporting documentation stating the basis for the request and the proposed implementation of the request.

- (5) Any eligible crop insurance contract that is sold or renewed if precluded by FCIC, while this Agreement is suspended will not receive reinsurance, A&O subsidy, CAT LAE or risk subsidy for such eligible crop insurance contracts.
- (6) Any eligible crop insurance contract not renewed in accordance with this subsection shall be canceled in accordance with the terms of the eligible crop insurance contract not later than 15 days before the next applicable cancellation date.

(j) Termination

- (1) Notwithstanding any other provision of this Agreement, FCIC may terminate this Agreement for cause due to a material failure to perform or comply with this Agreement or the FCIC procedures, or for the convenience of the government.
- (2) Termination will be effective on the date specified by FCIC but under no circumstances will it be after the last day of the reinsurance year.
- (3) If this Agreement is terminated, FCIC will not provide reinsurance for eligible crop insurance contracts issued or renewed after the date of the termination. Except as otherwise provided in this Agreement, FCIC will provide reinsurance in accordance with the terms of the Agreement, for eligible crop insurance contracts in effect as of the date of the termination until the next cancellation date for the eligible crop insurance contract.
- (4) In addition to any other reductions provided in the Agreement, if this Agreement is terminated by FCIC for cause, the Company shall pay FCIC an amount not greater than 10 percent of the net book premium for all eligible crop insurance contracts in its book of business based on the materiality or severity of the cause. All amounts collected under this paragraph will be placed in the Contingency Fund.
- (5) After termination of this Agreement, unless otherwise specified in this Agreement, all of the Company's eligible crop insurance contracts in its book of business shall be cancelled in accordance with the terms of such contract not later than 15 days before the next applicable cancellation date.

(k) Disputes and Appeals

- (1) If the Company disputes an action, finding, or decision of FCIC under this Agreement, the Company shall seek a final administrative decision regarding such action, finding, or decision in accordance with the provisions of 7 C.F.R. § 400.169 before seeking judicial review.

- (2) If the Company seeks a final administrative decision or reconsideration in accordance with 7 C.F.R. § 400.169, FCIC will, in most cases, issue a fully documented decision within 90 days of the receipt of a notice of dispute accompanied by all information necessary to render a decision. If a decision cannot be issued within 90 days, FCIC will notify the Company within the 90-day period of the reasons why such a decision cannot be issued and when it will be issued.

(l) Agreement Change Date

- (1) This is a single year Agreement that ends June 30 of the reinsurance year. The Company can enter into a new Agreement under the terms and conditions, except for issuances and revisions pertaining to Appendix III, that exist as of March 15 preceding the reinsurance year by filing a Plan of Operations and obtaining approval from FCIC.
- (2) If Congress enacts legislation on or before June 30 that will affect the terms of the Agreement for the next reinsurance year, the Company may, within 15 days of the date of enactment:
 - (A) Withdraw its Plan of Operations; or
 - (B) Amend its Plan of Operations, according to FCIC procedures.

(m) Funding Contingency

If Congress makes any change in law that will affect the amount of funds authorized to be paid under this Agreement, the affected provisions in this Agreement will be automatically revised to reflect such change in funding. Under no circumstance may a payment be made under this Agreement that is in excess of the amount authorized by law at the time such amount may be owed.

(n) Previous Obligations

Any obligations continuing under any previous Agreement will remain subject to the terms and conditions of such previous Agreement.

(o) Preemption of State Law

- (1) In accordance with section 506(l) of the Act (7 U.S.C. § 1506(l)), the provisions of this Agreement that are inconsistent with provisions of State or local law will supersede such law to the extent of the inconsistency.
- (2) The provisions of 7 C.F.R. part 400, subpart P pertaining to preemption of State or local laws or regulations are specifically incorporated herein and made a part hereof.

- (3) No assessment for any guarantee funds or similar programs may be computed or levied on the Company by any State for or on account of any premiums payable on eligible crop insurance contracts reinsured under this Agreement.
- (4) No State or local regulatory authority, including without limitation a State's insurance commissioner, department, or comparable public authority, may enforce or seek to enforce any provision of the Act, the regulations, this Agreement, or any FCIC procedures, without the prior written consent of FCIC.

(p) Discrimination

The Company shall not discriminate against any employee, applicant for employment, insured, applicant for insurance, or potential applicant for insurance because of race, color, national origin, religion, sex, age, disability, marital status, or in retaliation for exercising his or her rights under applicable Federal law. The Company shall be in substantial compliance with all applicable Federal laws prohibiting discrimination.

(q) Set Off

- (1) Funds due from the Company may be set off under the provisions of this Agreement or under the provisions of 31 U.S.C. chapter 37.
- (2) Any amount due the Company under this Agreement is not subject to any lien, attachment, garnishment, or any other similar process prior to that amount being paid under this Agreement, unless such lien, attachment, or garnishment arises under title 26 of the United States Code.
- (3) Set off as provided in this section will not deprive the Company of any right it might otherwise have to contest the indebtedness involved in the set off action by administrative appeal.
- (4) In the event a Company fails to pay any amount when due under this Agreement, any further payments to the Company from FCIC will be set off against any amounts due FCIC regardless of the reinsurance year until such amounts are paid with appropriate interest.
- (5) Notwithstanding an assignment made in accordance with section IV(r), FCIC may set off:
 - (A) Any amount due FCIC under this Agreement;
 - (B) Any amounts for which the Company is indebted to the United States for taxes for which a notice of lien was filed or a notice of

levy was served in accordance with the provisions of the Internal Revenue Code of 1986 (26 U.S.C. § 6323), or any amendments thereto or modifications thereof, before acknowledgment by FCIC of receipt of the notice of assignment; and

- (C) Any amounts, other than amounts specified in subparagraphs (A) and (B) due to FCIC or any other agency of the United States, if FCIC notified the assignee of such amounts to be set off at or before the time acknowledgment was made of receipt of the notice of assignment.

(r) Assignment

- (1) No assignment by the Company shall be made of the Agreement, or the rights thereunder, unless:
 - (A) The Company assigns the proceeds of the Agreement to a bank, trust company, or other financing institution, including, but not limited to, any federal lending agency, or to a person or firm that holds a lien or encumbrance at the time of assignment; and
 - (B) The Company receives the prior approval of FCIC to assign the proceeds of this Agreement to any other person or firm.
- (2) Any assignment made under paragraph (1):
 - (A) Will be recognized only if and when the assignee thereof files with FCIC a written notice of the assignment together with a signed copy of the instrument of assignment;
 - (B) Shall cover all amounts payable and not already paid under the Agreement;
 - (C) Shall not be made to more than one party; and
 - (D) Shall not be subject to further assignment, except that any such assignment may be made to one party as agency or trustee for two or more parties.

Certification

The undersigned acknowledges that the Company and its Board of Directors, if applicable, has authorized the Company to enter into this Agreement for the 2015 reinsurance year. The undersigned certifies that the information provided by the Company related to this Agreement is true and accurate and acknowledges that any misrepresentation in the submission of this Agreement and information provided by the Company related to this Agreement may result in civil, administrative, or criminal liability against the Company.

APPROVED AND ACCEPTED FOR**THE FEDERAL CROP
INSURANCE CORPORATION****THE COMPANY**

 Signature

 Signature

 Name

 Name

 Title

 Title

 Date

 Date