Updated February 2015



General Insurance Information Study Guide Crop Adjuster Proficiency Program (CAPP_R)



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INTRODUCTION

National Crop Insurance Services, Inc. (NCIS), an international crop insurance trade association, developed the Crop Adjuster Proficiency Program (CAPP_®) to test adjuster proficiency of the knowledge necessary to successfully adjust Federal Crop Insurance claims. The CAPP_® program was reviewed and approved by the USDA Risk Management Agency (RMA) as satisfying their requirements for a proficiency testing program.

The 2005 Standard Reinsurance Agreement (SRA) required adjusters to be licensed in a state if that state required licensing of adjusters. At the time, there was significant variance in licensing and examination requirements between states. This inconsistency and lack of uniformity magnified reciprocity issues and concerns between states which had licensing and exam requirements, and those states that did not have such requirements. Lack of uniformity and reciprocity between states increased confusion for regulators and hindered the movement of adjusters in times of high losses or when catastrophes struck. Additionally, crop adjusters in states with exam requirements were often required to take exams that had little or no relevance to evaluating the knowledge necessary to adjust Federal Crop Insurance claims. In states where exams did contain crop insurance information, the information was often out of date due to the frequent and extensive changes to the Federal Crop Insurance Program. CAPP® was developed by NCIS to help address these issues.

CROP ADJUSTER PROFICIENCY PROGRAM (CAPP) OVERVIEW

The Crop Adjuster Proficiency Program $(CAPP_{\circledast})$ was developed to help crop adjusters comply with State adjuster training and licensing requirements as specified in the Standard Reinsurance Agreement (SRA) between the USDA Risk Management Agency (RMA) and the Approved Insurance Providers (AIPs).

CAPP[®] **Program Basics:**

To receive and maintain the Crop Adjuster Proficiency Program accreditation, an adjuster must complete the following:

- **Part 1. Initial Training**—Complete at least 60 hours of structured training (which includes at least 24 hours of classroom training) and complete a basic competency exam administered at the company level.
- **Part 2. Proficiency Examination**—Successfully pass three CAPP® exams, one each over the following three topical areas:
 - i) <u>General Insurance Information</u>—concepts and principles, terms, definitions and professional conduct such as civil rights, ethics, and conflict of interest;
 - ii) Basic Provisions of Insurance; and,
 - iii) Loss Adjustment Manual (LAM).
- **Part 3.** Continuing Education—Annually complete the SRA mandated training for adjusters (2015 SRA requires at least 16 hours of structured training—which includes at least 8 hours of classroom training).

Adjusters who complete all three parts of the $CAPP_{\circledast}$ as described above receive a personalized accreditation card. Their $CAPP_{\circledast}$ card is reissued on an annual basis as long as they complete the CE requirements for adjusters as listed in Part 3.

The crop insurance program is very complex and dynamic, and the core procedural material is voluminous. The $CAPP_{\circledast}$ program is designed to test overall procedural knowledge of Federal crop insurance, reinforce understanding of and familiarity with core procedural materials, and test an individual's ability to source the correct answer in a timely manner rather than reliance on rote memorization of material that is constantly changing. Thus the three separate CAPP_® exams in Part 2 are open book, timed, online, and proctored. Each exam must be passed at the 80% level, and there is a 7-day waiting period before a second exam over the same topical area may be taken following a failed attempt.

PURPOSE OF THIS PUBLICATION

This publication, General Insurance Information Study Guide (General Insurance Terms, Concepts, and Federal Regulations Governing the Federal Crop Insurance Program) was prepared as the source material for the <u>General Insurance Information</u> exam described above. The Multiple Peril Crop Insurance Common Crop Policy and the Loss Adjustment Manual (LAM) are the source material, or study guides, for the other two exams.

This Study Guide provides the information necessary to successfully complete the <u>General Insurance</u> <u>Information</u> exam. Individuals adjusting Federal Crop Insurance claims should have a basic understanding of general insurance terms and concepts that may not be explicitly explained or covered in the federal loss adjustment manuals or policies, but are relevant to the business of crop insurance. Moreover, because Federal Crop Insurance is a Federal program, participants and AIP's offering the insurance are to comply with certain federal regulations. For example, adjusters should be familiar with civil rights, general terms of the Crop Insurance Act, Standard Reinsurance Agreement requirements affecting adjusters, and the required privacy act and non-discrimination statements and the protection afforded to participants in the program by these statements.

NATIONAL CROP INSURANCE SERVICES (NCIS)

National Crop Insurance Services (NCIS) is a 503(c) not-for-profit private industry trade association whose members include the private companies who deliver the Federal crop insurance program. Currently, all SRA holders are members of NCIS.

A primary role for NCIS is to provide training and education services for NCIS members, particularly on updates to all aspects of the crop insurance program including policy, procedure, actuarial, and data reporting requirements. Annually, NCIS conducts three national conferences devoted to program changes, and sponsors over two dozen regional loss schools and field days teaching RMA developed and approved loss adjustment procedures. Moreover, NCIS' technical staff works closely with RMA in providing industry review and comment on all aspects of all components of the Federal crop insurance program, including policy provisions and loss adjustment procedures and handbooks. Consequently NCIS subject matter experts are uniquely qualified to develop appropriate questions for CAPP_® that are placed in the proper context, and to make corresponding changes to supporting materials and exams as RMA releases changes to the Basic Provisions and Loss Adjustment Manual.

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I. FUNDAMENTAL ASSUMPTIONS AND PRINCIPLES OF INSURANCE

The adjuster that understands basic principles of insurance recognizes that an insurance contract is constructed to be fair to both the insured and insurance company. Insurance companies cannot survive without insureds and likewise those insureds would find survival (financial and otherwise) at their accustomed standard of living difficult at best without insurance companies. When fairness is out of balance, the results are often measured in the adequacy of affordable insurance or the solvency of the insurance provider. For the balance of fairness to remain intact, adjusters have a responsibility to fully understand the policy benefits provided and carry out their duties objectively.

This study of the fundamental assumptions and principles of insurance derives much of its information from materials developed by the American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America. The American Institute for Chartered Property Casualty Underwriters was founded in 1942 as the result of a cooperative effort between insurance executives and insurance professors, specifically faculty members from the Wharton School of the University of Pennsylvania. The Chartered Property Casualty Underwriter designation (CPCU) was a result of this partnership. The Insurance Institute of America was founded in 1909 and offers numerous designations and certified programs, of which the CPCU designation is only one.

General discussion of the fundamentals and principles of insurance will refer to an insurance company or companies. The term AIP (Approved Insurance Provider) will be used in discussions of applicability to the Federal crop insurance program.

There are nine¹ fundamental assumptions that will be the basis of this study.

The first fundamental assumption:

Insurance requires "**Good Faith**." Simply defined, good faith is honesty or lawfulness of purpose. Exhibiting good faith is not limited to either the insured or the insurer. All parties to the insurance contract must act in good faith to prevent abuses such as misrepresentation or opportunism.

When a potential insured completes an application, the insurer is relying on the individual's good faith to make full and fair disclosure of the risk to be insured. An insured that intentionally conceals material information or who misrepresents material facts either in the application process or the filing of a claim does not act in good faith. The Multiple Peril Crop Insurance (MPCI) Common Crop Insurance Policy (hereafter referred to as the Basic Provisions) provide that in the event of concealment, misrepresentation, or fraud on the part of the insured, the policy is voided for the crop year. Any claims paid for the crop year the voidance was effective are required to be repaid and, as a consequence, the insured could be subject to sanctions.

Good faith is required on the insurer's part to investigate and pay claims promptly. These obligations are detailed in the Basic Provisions in various sections; most notably section 14, "Duties in the Event of Damage, Loss, Abandonment, Destruction, or Alternative Use of Crop or Acreage." This section provides terms for prompt payment of claims through the use of procedures established or approved by the FCIC (Federal Crop Insurance Corporation) to determine losses. The insurer also has a good faith obligation to draft a contract that is unambiguous. This point is detailed in the second fundamental assumption.

The second fundamental assumption:

"The Policy Drafter Should Not Receive an Unfair Advantage." In other words, the policy language should clearly state what it intends to cover. Policy provisions that can reasonably be interpreted in more than one way are considered ambiguous. "What matters is the written contract's *actual wording*, not the *intentions* of the party who drafted it. If the courts rule that a provision is ambiguous, then it is ambiguous. If a policy provision is declared ambiguous by a court, the court will generally apply an interpretation that favors the insured."²

Most insurance contracts are developed by the insurer and are offered to insureds on a take it or leave it basis. This type of contract, where one party chooses the exact wording in the policies, and the other party (insured) has little choice but to accept or reject it is considered a **contract of adhesion**.

Federal crop insurance is unique in that FCIC, the re-insurer, is considered to be the drafter of Federal crop insurance policies and not the issuing AIP. Because FCIC is considered to have developed the policy language, any disputes of policy language by an insured require an interpretation from FCIC rather than the AIP's. As directed by the AIP, adjusters should work claims having such disputes on a non-waiver or in accordance with the controversial claim procedure in the Loss Adjustment Manual (LAM).

The same is true for an insurance provider. If an insurance provider disputes the policy language, they too must request an interpretation from FCIC. The remedy for a disagreement with a FCIC determination is outlined in section 20, "Mediation, Arbitration, Appeal, Reconsideration, and Administrative and Judicial Review" of the Basic Provisions.

The third fundamental assumption:

"**The Goal Of Insurance Is To Indemnify.**" Insurance is a contract of indemnity. "A **contract of indemnity** is a contract in which the insurer agrees, in the event of a covered loss, to pay an amount directly related to the amount of the loss." A straightforward understanding of this assumption is that in the event of loss, an insured would expect to receive compensation to make them whole (within the limits of the policy). Conversely, if an insured does not suffer a loss, they would not be entitled to compensation.

Federal crop insurance is not unlike other forms of insurance because deductibles and other coverage limits are to be considered in determining indemnities. Such limitations in coverage result in indemnities that are less than the entire amount of a loss. Additionally, insurance in most cases does not indemnify for losses that are beyond the value of the covered property. Costs associated with the inconvenience, time spent gathering information, hassle, and other non-financial expenses involved in recovering from a loss are not normally covered.

The fourth fundamental assumption:

"**Insurance Should Not Over Indemnify**" an insured for a loss. The **principle of indemnity** states that insurance policies should provide a benefit no greater than the loss suffered by an insured. This means that an insured should not profit from a covered (insurable) loss. The text from which this study derives its information suggests that the principle of indemnity may be the most fundamental principle.

The Basic Provisions section 35, "Multiple Benefits" support this fundamental assumption and further support the principle of indemnity. This provision provides that an insured should not receive amounts that exceed the actual loss. Section 35 specifically addresses amounts received from other United States Department of Agriculture (USDA) programs.

One challenge to the principle of indemnity is moral hazards. **Moral hazards** are conditions that would lead one to exaggerate or consider intentionally causing a loss or filing a false claim to benefit financially. An insured experiencing trouble with finances might view an insurance claim as a means to help alleviate some of the financial strain by exaggerating the amount of a loss. Adjusters who can recognize when potential moral hazards exist are an integral part of the efforts to maintain integrity of the Federal crop insurance program.

Attitudinal or Morale hazards are often confused with moral hazards. These hazards are defined as hazards that involve carelessness about, or indifference to, potential loss on the part of an insured or applicant. These are more subtle and may be harder to detect than moral hazards. Morale hazards are often associated with carelessness or poor

management. A morale hazard exists when an insured believes that they can be less careful or pay less attention to good management practices because they have insurance.

The fifth fundamental assumption:

"Insureds Should Not Be Indemnified More Than Once Per Loss." Each loss should be indemnified by one policy, or one part of a policy. The Federal crop insurance program operates under the assumption that an insured will have only one policy per crop in a county. Section 22, "Other Insurance" of the Basic Provisions state that unless specifically required, an insured must not obtain any other crop insurance authorized under the Act (Crop Insurance Act) on their share of the insured crop. However, allowances are made in section 22 for obtaining other insurance not authorized under the Act.

This assumption is again supported in the Federal crop insurance underwriting and loss adjustment manuals which provide instruction to underwriters and adjusters in the event the insurer discovers that an insured is covered under more than one policy (duplicate coverage). Reports are created continuously by FCIC's administrator, the Risk Management Agency (RMA), to alert AIP's when one of their insureds has duplicate coverage.

The sixth fundamental assumption:

"**Parties To Be Insured Should Face Potential Loss.**" The individual to be insured must have an **insurable interest** in the property, life, health, etc. that the insurance is providing protection against loss. In the case of Federal crop insurance, the insured must have an insurable interest in the crop to be covered. The definition of "Insured" and section 10, "Share Insured" are among a number of places that this principle of insurable interest is supported in the Basic Provisions.

Insureds that experience a loss of property in which they have an insurable interest are subject to financial harm as opposed to individuals with no insurable interest who are not. To be indemnified for a loss in which there is not an insurable interest defeats the principle of indemnity. Insurance should not provide a benefit greater than the loss suffered by the insured.

The decision to purchase insurance is a decision to transfer an amount of risk that reduces financial uncertainty and makes unavoidable or accidental losses manageable.³ Thus the insured is a partner with the insurance company in the management of risk and has an incentive to minimize potential losses. An individual that does not have an insurable interest has no risk to transfer and therefore no incentive to minimize potential losses.

The seventh fundamental assumption:

"**Insurance Is Intended For Fortuitous Future Losses.**" Fortuitous losses are losses that happen accidentally or unexpectedly, with reasonable uncertainty about the probability or timing of loss. In support of this assumption, the Basic Provisions in section 12, "Causes of Loss" state that insurance is provided only to protect against unavoidable, naturally occurring events contained in the Crop Provisions.

For insurance to protect against fortuitous future losses, the insurance contract must be considered aleatory. An **aleatory contract** is an exchange of unequal amounts where the insurance provider conditionally promises to pay a loss if stated uncertain events occur in return for premium. To illustrate what is meant by the exchange of unequal amounts, consider the following scenarios. When no loss occurs, the policy premium paid by the insured exceeds the amount paid by the insurer. When a large loss occurs, the loss payment by the insurer could far exceed the amount of premium paid by the insured. In either situation, there is an exchange of unequal amounts.

Another consideration necessary to fulfill the assumption that only fortuitous future losses are paid, the insurance purchase decision should not involve **adverse selection**. Adverse selection occurs when an individual insures against a known loss or seeks higher amounts of coverage when there is a higher than normal expectation of a loss occurring.

The Basic Provisions contain several examples to guard against adverse selection. Section 6, "Report of Acreage" specifies that insureds report all acreage of a crop in which they have a share in a county whether the acreage qualifies as insurable or not. If insureds were allowed to insure only their riskiest acreage, they would be choosing to insure against losses that have a higher than normal expectation of occurring. Section 8, "Insured Crop" states in part that coverage will not be provided for crop of a type, class or variety or where conditions under which the crop is planted are not generally recognized for the area or a crop planted for experimental purposes. To plant a crop in an area that is not well suited to growing the crop carries a certain expectation that a loss will occur. Section 17, "Prevented Planting" disallows increasing an elected or assigned prevented planting coverage level if a cause of loss that could prevent planting is evident prior to the time to make prevented planting coverage level changes.

The eighth fundamental assumption:

"**Insureds Should Not Profit From Their Own Wrongdoing.**" As discussed previously, for the business of insurance to operate properly, insurance depends on losses being unexpected or accidental. Specific to Federal crop insurance, covered losses are those that are deemed unavoidable and due to a natural act. Man-made losses, with the exception of revenue coverage, are not covered losses under a Federal crop insurance policy. Therefore, insureds that intentionally create insured losses in order to obtain a profit can be denied coverage.

Most policies are very specific that losses resulting from intentional acts are not covered. The first exclusion stated in section 12, "Causes of Loss" states that causes of loss resulting from any act by any person that affects the yield, quality or price of the insured crop (e.g., chemical drift, fire, terrorism, etc.); is not covered. Other exclusions that may be determined to be intentional acts found in section 12 are a failure to follow good farming practices and a failure to carry out a good irrigation practice for an irrigated crop.

The ninth fundamental assumption:

"Insurance Should Equitably Distribute Risk Costs." Insurance works effectively when the cost of the risk is distributed equally among purchasers of insurance. When premiums are pooled from a large number of insureds and incurred losses by individual insureds are paid from the pool, then the total cost of the loss is spread (or shared) among all insureds in the pool. The premiums charged should be directly proportional to each insureds expected losses on an actuarially sound basis.

To establish premiums on an actuarially sound basis, AIP's, RMA, and NCIS (in its role as a statistical agent for the private crop-hail product) rely on the law of large numbers. **The Law of Large Numbers** is a mathematical principle that enables insurers to make predictions about losses. The larger the number of policies on which an insurer has gathered experience data, the better it can accurately predict future losses and establish appropriate premiums. It is often said the best prediction of the future is based on past experience.

In support of the ninth fundamental assumption, the Federal Crop Insurance Act stipulates in section 506 [7 U.S.C. 1506] (n) titled "Actuarial Soundness" that FCIC shall take such actions, including the establishment of adequate premiums, as are necessary to improve the actuarial soundness of the Federal multiple peril crop insurance to achieve the stated target loss ratio.

- ² Constance M. Luthardt, CPCU, AAI, AIM & Eric A. Wiening; CPCU, ARM, AU, *Property and Liability Insurance Principles* 4th Edition
- ³ Insurance Information Institute, *Sharing the Risk, Revised Third Edition*

¹ Eric A. Wiening, CPCU, ARM, AU; Foundations of Risk Management and Insurance 1st Edition

II. CROP INSURANCE ACT

Congress first authorized Federal crop insurance in the 1930s along with other initiatives to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl. The Federal Crop Insurance Corporation (FCIC) was created in 1938 to carry out the program. Initially, the program was started as an experiment, and crop insurance activities were mostly limited to major crops in the main producing areas. Crop insurance remained an experiment until passage of the Federal Crop Insurance Act of 1980.

The 1980 Act expanded the crop insurance program to many more crops and regions of the country. It encouraged expansion to replace the free disaster coverage (compensation to farmers for prevented planting losses and



yield losses) offered under Farm Bills created in the 1960s and 1970s, because the free coverage competed with the experimental crop insurance program. To encourage participation in the expanded crop insurance program, the 1980 Act authorized a subsidy equal to 30 percent of the crop insurance premium limited to the dollar amount at 65 percent coverage.

Although more farmers took part in the program after passage of the 1980 Act, it did not achieve the level of participation that Congress had hoped for. Therefore, after a major drought in 1988, ad hoc disaster assistance was authorized to provide relief to needy farmers. Another ad hoc disaster bill was passed in 1989. A third one enacted in 1992 gave farmers the option of claiming disaster losses on a farm-by-farm basis for any year between 1990 and 1992. An extremely wet and cool growing season in 1993 caused more losses, and Congress passed yet another ad hoc disaster bill. However, dissatisfaction with the annual ad hoc disaster bills that were competing with the crop insurance program led to enactment of the Federal Crop Insurance Reform Act of 1994.

The 1994 Act made participation in the crop insurance program mandatory for farmers to be eligible for deficiency payments under price support programs, certain loans, and other benefits. Because participation was mandatory, catastrophic (CAT) coverage was created. CAT coverage compensated farmers for losses exceeding 50 percent of an average yield paid at 60 percent of the price established for the crop for that year. The premium for CAT coverage was completely subsidized. Participants paid \$50 per crop per county subject to maximum amounts for multiple crops and counties insured by the same individual. Subsidies for higher coverage levels were increased.

In 1996, Congress repealed the mandatory participation requirement. However, farmers who accepted other benefits were required to purchase crop insurance or otherwise waive their eligibility for any disaster benefits that might be made available for the crop year. These provisions are still in effect.

In the same year, the Risk Management Agency (RMA) was created to administer FCIC programs and other noninsurance-related risk management and education programs that help support U.S. agriculture.

Participation in the crop insurance program increased significantly following enactment of the 1994 Act. For example, in 1998, more than 180 million acres of farmland were insured under the program. This is more than three times the acreage insured in 1988, and more than twice the acreage insured in 1993. According to estimates by the USDA National Agricultural Statistics Service, in 1998, about two-thirds of the country's total planted acreage of field crops (except for hay) was insured under the program. The liability (or value of the insurance in force) in 1998 was \$28 billion, the largest amount since the inception of the program. The total premium, which includes subsidy, and the premium paid by insured persons (nearly \$950 million) were also record figures.



In 2000, Congress enacted legislation that expanded the role of the private sector allowing entities to participate in conducting research and development of new insurance products and features. With the expansion of the contracting and partnering authority, RMA can enter into contracts or create partnerships for research and development of new and innovative insurance products. Private entities may also submit unsolicited proposals for insurance products to the Board (FCIC Board of Directors) for approval. If approved by the Board, these unsolicited insurance products could receive reimbursement for research, development and operating costs, in addition to any approved premium subsidies and reinsurance. After three years the private entity may elect to retain ownership of the insurance product and

charge a fee, as approved by the Board, to other insurance providers who sell the product or elect to transfer ownership of the product to RMA.

Additional changes made in 2000: Restrictions on the development of insurance products for livestock were removed. Authority was added to allow the Board of Directors to create an expert review panel to provide assistance to the Board in evaluating new insurance products for feasibility and actuarial soundness. Premium subsidies were increased to encourage producers to purchase higher insurance coverage levels and to make the insurance program more attractive to prospective producers.¹

The 2008 Farm Bill provided many administrative additions and changes to the Act some of which are detailed in the following paragraphs.

As a result of the 2008 Farm Bill, the target loss ratio for the crop insurance program was reduced from 107.5 percent to 100 percent for determining actuarial soundness. The administrative fee a producer pays for CAT coverage was increased from 100 to 300 dollars and the payment due date for CAT fees was changed to match the premium due date for additional coverage policies. Renegotiation of the Standard Reinsurance Agreement (SRA) is now a part of the Act as a result of the 2008 Farm Bill. The SRA is to be renegotiated effective for the 2011 reinsurance year beginning July 1, 2010 and once thereafter every five years. Renegotiation may occur more frequently if circumstances outlined in the Act are determined to have an adverse effect on the Approved Insurance Providers (AIP's).

Program Integrity was enhanced by prohibiting the allowance of inducements to be offered before or after the sale of a policy to encourage producers to buy from a particular company or agent. Specifically prohibited inducements are rebates, discounts, abatements, credits, or reduction of the premium or any other valuable consideration or inducement not specified in a policy. Restrictions were added to the amount of commissions an individual may receive where they have a substantial beneficial interest (SBI) in a policy or plan of insurance. An individual is limited to 30 percent (or lower if specified by state law) of the total compensation received directly or indirectly for the sale or service of all policies and plans of insurance offered for the reinsurance year for those policies. Individuals receiving compensation from policies or plans of insurance in which they are considered to have a SBI are required to report annually their compliance with this section of the Act. Data mining efforts to ensure program integrity will receive up to \$4 million for each fiscal year of 2008 through 2011 from the insurance fund established in section 516(c) of the Act. Up to \$15 million will be made available annually to improve program integrity through increased compliance-related training, improving analysis tools, using information and technology as determined by FCIC, and identifying and using innovative compliance strategies.

A significant addition to the Act for insured producers as a result of the 2008 Farm Bill is that a producer will be allowed to delay settlement of a crop insurance claim where Farm-Stored production is concerned. This allowance provides for up to four months after the last date (60 days after the end of the insurance period) on which claims may be submitted under the policy of insurance to settle such claims. This language was incorporated by amending the Basic Provisions for the Actual Production History (APH), and other plans of insurance in place at that time to allow delayed settlement for up to 180 days after the end of the insurance period. Native sod that has never been tilled for

the production of an annual crop will not be eligible for crop insurance during the first five years of planting, as determined by the Secretary. There are special considerations for this delayed eligibility that can be made for the Prairie Pothole National Priority Area of the nation by the Governor of the respective state.

Education also received emphasis in the 2008 Farm Bill. The Act was amended to include language emphasizing education for beginning farmers and ranchers. The Secretary is to place special emphasis on risk managements strategies, education, and outreach specifically targeted to beginning farmers and ranchers; legal immigrant farmers or ranchers that are attempting to become established producers in the U.S.; socially disadvantaged farmers; farmers or ranchers that are preparing to retire and are using transition strategies to help new farmers get started; and, new or established farmers or ranchers that are converting production and marketing systems to pursue new markets.²

The 2014 Farm Bill added additional risk management options and made crop insurance more affordable for beginning farmers and ranchers. Qualifying beginning farmers and ranchers will be exempt from paying the \$300 administrative fee for catastrophic (CAT) policies (\$30 administrative fee for additional policies) and have the ability, in certain instances, to use the production history of entities where they were previously employed or helped manage. Premium subsidy rates for qualifying beginning farmers and ranchers are increased by 10% during their first five years of farming. Additionally, qualifying beginning farmers and ranchers may replace poor yield in their history with 80% of the county T-yield, which is 20 percentage points higher than what they otherwise could have received.

Conservation compliance was re-linked to crop insurance in the 2014 Farm Bill. In order for producers to be eligible to receive premium subsidies on their crop insurance purchases, they will have to comply with the highly erodible land and wetland conservation requirements. Producers are required to have a conservation plan if they plant annually tilled crops on highly erodible soil and if they destroy any wetlands after enactment of the 2014 Farm Bill, they risk losing their crop insurance premium subsidy. Such action also affects eligibility for commodity, conservation, and disaster program benefits.³

The 2014 Farm Bill provided some additional coverage enhancements that may prove to be very popular. Concerning coverage levels and unit selection, insureds will now have the ability to select differing coverage levels for dryland and irrigated land and they may select different enterprise units for irrigated and non-irrigated land. Probably the most anticipated enhancement is the ability to exclude eligible low yields in their history used to determine their insurance guarantee for the current crop year. The "APH Yield Exclusion Option" triggers when the per planted acre yield of the agricultural commodity in the county was at least 50 percent below the simple average of the per planted acre yield of the agricultural commodity in the county during the previous 10 years. Insureds in contiguous counties to the qualifying county may also exclude eligible yields if they have elected the option. Insureds may opt-out of this election on a database by database or eligible crop year basis if they have yields that would be above the county average yield in an excludable year. Eligible crops and excludable years for a county will be identified in the actuarial documents.⁴

Two additional risk management options were provided in the 2014 Farm Bill that allow a producer to cover a portion of their losses (deductible) not covered by the crop's underlying individual policy. The Supplemental Coverage Option (SCO) is a county level revenue or yield based optional endorsement. STAX is a standalone/supplemental insurance policy for cotton only and the premium subsidy for this coverage is 80%. STAX protects against county-wide revenue losses and supplements a producer's underlying policy or, unlike SCO, can be purchased as a standalone policy. ^{3 & 4}

- ² National Crop Insurance Services, Inc.: Crop Insurance Today, Vol. 41, No. 3, August 2008
- ³ 2014 Farm Bill Fact Sheet, USDA Risk Management Agency: New Farm Bill Offers Modification to Crop Insurance Programs, April 2014.
- ⁴ Agricultural Act of 2014

¹ RMA (Risk Management Agency) website: *http://www.rma.usda.gov/aboutrma/what/history.html*

III. STANDARD REINSURANCE AGREEMENT (SRA)¹

This section will provide a general overview of the SRA and its applicability to the loss adjustment of Federal crop insurance claims and is not all inclusive of every duty or obligation of the Approved Insurance Provider (AIP) or adjuster. Definitions to terms used within the SRA will be found at the end of this section.

The Standard Reinsurance Agreement between FCIC and AIP's is a cooperative financial agreement to deliver eligible crop insurance contracts under the authority of the Crop Insurance Act. The SRA establishes the terms and conditions under which FCIC, supervised by RMA, will provide subsidy and reinsurance on eligible crop insurance contracts sold by AIP's.

Under Section II of the SRA titled "Reinsurance," only eligible crop insurance contracts will be reinsured and subsidized under the SRA. AIP's must offer and market all plans of insurance for all crops in any state where actuarial documents are available in which the AIP writes an eligible crop insurance contract. Applications from all eligible producers must be accepted and approved by AIP's. Eligible crop insurance contracts held by a policyholder may not be canceled by an AIP so long as the policyholder remains an eligible producer and the AIP continues to write eligible crop insurance contracts within the State. One exception to an AIP being required to offer all plans of insurance are those plans that are under the authority of section 508(h) of the Crop Insurance Act. However, if an AIP chooses to offer these plans, they must do so in states in which it is approved to write and under the same conditions stated earlier in this paragraph.

Appendix I, Section VI of the SRA outlines activities and relationships that are deemed to be conflicts of interest and the required duty that individuals (including adjusters) have in disclosing such conflicts of interest. Penalties for failure to disclose conflicts of interest is best summed up in the following statement found in subparagraph (e)(2): "eligible crop insurance contracts sold or serviced by the person who failed to disclose a business, financial, or legal relationship with a policyholder or is a relative of the policyholder may not, at FCIC's discretion, be reinsured or receive A&O subsidy, CAT LAE, or risk subsidies for the reinsurance year for which such disclosure was not provided." Adjusters should refer to the Loss Adjustment Manual Standards Handbook (LAM) for specific guidance.

For a general understanding of conflicts of interest, in an article published by the Ethics Resource Center², conflicts of interest are generally understood to mean that decisions are not made independently (free from conflicting interests). Independence can be understood as freedom to act without control or influence from others, to be free to make decisions and act without external constraint. The generally accepted definitions of conflicts of interest treat the appearance of conflicting interests as significantly as such conflicts in fact. In support of disclosing conflicts of interest the article makes the statement: "The remedy for conflicts of interest in most situations is as simple as disclosure."

Appendix IV (Quality Assurance and Program Integrity) of the SRA has four main parts outlining duties and obligations of the AIP. Those four parts are, 1) General quality control plan reporting requirements; 2) Training of agents, loss adjusters, and other personnel; 3) Quality control guidelines, and; 4) Reporting suspected misrepresentation, fraud, waste, and abuse. This study of Appendix IV will be limited to the part on training curriculum and requirements of adjusters.

Training curriculum developed by AIP's must include materials on those eligible crop insurance contracts that it will sell or service in a state. The curriculum must contain at least a minimum of the following for new adjusters and for experienced adjusters updates and changes to such items identified. Information should be sufficient to make adjusters proficient in:

The meaning of the terms and conditions of the Common Crop Insurance Policy, Basic Provisions and applicable Crop Provisions, , pilot programs, and other plans found on the RMA website and any changes thereto;

- > All applicable endorsements, Special Provisions and options and any changes thereto;
- > The benefits and differences between the applicable plans of insurance and their suitability to farming conditions and operations in the relevant area;
- Actuarial documents and their use;
- > How to properly fill out and submit all applicable forms, documents, notices and reports;
- How to recognize anomalies (deviation from the common rule; an irregularity) in reported information and common indicators of misrepresentation, fraud, waste or abuse, the process to report such to the AIP, and appropriate actions to be taken when anomalies or evidence of misrepresentation, fraud, waste or abuse exist;
- > The procedures applicable to loss adjustment of eligible crop insurance contracts and any changes thereto;
- How to properly verify the accuracy of the information contained on applicable forms, documents, notices and reports;
- > How to properly determine the amount of production to be used for the purposes of determining losses;
- > The requirements under applicable Federal civil rights statutes; and
- > Other requirements as may be established by FCIC.

Before an AIP may permit an adjuster to adjust or sign any claim for any eligible crop insurance contract:

- 1. The new loss adjuster must participate in a structured training program of at least 60 hours on all of the items listed in the previous paragraph (including at least 24 hours of classroom training).
- 2. The experienced loss adjuster must annually complete at least 16 hours of structured training (including at least 8 hours of classroom training), on updates or changes specifically related to the areas listed previously or that are identified by FCIC or the AIP as deficient during the quality control reviews or processing of sales related documents.
- 3. All loss adjusters must pass a basic competency test. Basic competency tests must specifically relate to the areas listed previously and determine the proficiency of the individuals who completed the required training to accurately and correctly determine the amount of the loss and verify applicable information. Additionally, the AIP must review the test results and document follow-up training initiatives for any area of identified weakness on the part of any one or more new loss adjusters or experienced loss adjusters.
- 4. All loss adjusters must retake and pass the competency test every three years.
- 5. The AIP must obtain and have available upon request, documentation for any loss adjuster that has passed the basic competency test within the past 3 years with another AIP to fulfill the requirements of items 1 through 4 above.

Incorporated into the 2011 SRA was an amendment to the 2005 SRA effective for the 2010 subsequent reinsurance years. This amendment implemented a certification requirement for adjusters of Federal crop insurance claims. The 2005 SRA Amendment No. 2 was added to the SRA for many of the same reasons the Crop Adjuster Proficiency Program (CAPP) was developed. The incorporated amendment is found in Appendix I, Section VIII of the 2015 SRA.

Appendix I, Section VIII beginning with subparagraph (c) reads:

(c) All loss adjusters adjusting eligible crop insurance contracts must be certified by FCIC before they can conduct any loss adjustment. Certification of loss adjusters by FCIC may be obtained by completing the training requirements in subsection (a) [subsection (a): All applicable employees, agents, agency employees, loss adjusters, and contractors must be trained in accordance with Appendix IV.] and:

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- (1) If any State in which the loss adjuster performs loss adjustment activities requires the loss adjuster to take a test which is directly related to crop insurance to obtain a license to adjust an eligible crop insurance contract, taking and passing the State test and obtaining the license required by the State;
- (2) If any State in which the loss adjuster performs loss adjustment activities does not require the loss adjuster to obtain a license to adjust an eligible crop insurance contract (including those cases where the loss adjuster is a company employee and the State excludes company employees from licensing requirements), taking and completing with a passing grade a proficiency testing program developed, approved, and implemented under FCIC procedures or, if such FCIC-approved proficiency testing program is not available in the State, completing the training required by the Company under Appendix IV; or
- (3) If any State in which the loss adjuster performs loss adjustment activities requires a test which is not crop insurance-specific (as determined by FCIC) to obtain a license to adjust an eligible crop insurance contract, taking and completing with a passing grade a proficiency program developed, approved, and implemented under FCIC procedures in lieu of obtaining a license in such State, or, if such FCIC-approved proficiency program is not available in the State, taking and passing the State test and obtaining the license required by the State.
- (d) The Company shall not permit a loss adjuster to conduct any loss adjustment activity for the reinsurance year until he or she has been certified. FCIC will consider the loss adjuster to be certified after:
 - (1) The loss adjusters provides to the Company verifiable documentation showing that he or she has completed the required training, obtained the proper license or has taken and completed with a passing grade the applicable test or testing program specified in subsection (c); and
 - (2) The Company submits proper written or electronic verification to FCIC, as directed by FCIC.
- (e) Loss adjusters shall be required to retake the required FCIC-approved proficiency testing program referenced in subsections (c)(2) and (3) as required by the Company or FCIC.
- (f) Any person who has been found in noncompliance with any loss adjustment policy, FCIC procedure, or training requirement approved by FCIC shall be de-certified by FCIC. In such case, FCIC will provide written notification to the Company and the Company shall not permit that person to perform loss adjustment activities until he or she has received the training specified by FCIC, has retaken and completed with a passing grade the required proficiency testing program, and has been certified by FCIC. A listing of persons decertified will be available to the Company.
- (g) Allowing a loss adjuster to conduct any loss adjustment activity on a policy before he or she is properly certified or after he or she has been de-certified shall result in the denial of reinsurance, CAT LAE, or risk subsidy for all policies upon which such activity occurred.

Selected Definitions Contained in the SRA:

Act	In lieu of the definition in the incorporated regulations, means the Federal Crop Insurance Act (7 U.S.C. §§1501-1524).
A & O Subsidy	The subsidy for the administrative and operating expenses paid by FCIC on behalf of the policyholder to the AIP 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	The processing fee the policyholder must pay under an eligible crop insurance contract.
Approved Insurance Provider	A legal entity, including the Company, which has entered into a Standard Reinsurance Agreement (SRA) with FCIC for the applicable reinsurance year.
CAT LAE	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)).

- **Claims Supervisor** 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.
- **Eligible Crop** 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 the SRA; and (4) having a sales closing date within the reinsurance year.
- **Eligible Producer** A person who has an insurable interest in an agricultural commodity, who has not been determined ineligible to participate in the Federal crop insurance program, and who possesses a United States issued social security number (SSN) or employer identification number (EIN).

Experienced Loss 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.

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.
- Loss Adjuster 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.

New Loss Adjuster A loss adjuster who has not completed one full year of loss adjustment.

Person An individual or legal entity.

Plan of Insurance 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.

- **Policyholder** An eligible producer who has been issued one or more eligible crop insurance contracts. (See section IX of this guide for the general insurance definition of term)
- **Producer Premium** That portion of the premium for an eligible crop insurance contract payable by the policyholder.
- **Records** Documentation in any form that relates to an eligible crop insurance contract or the SRA. 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 AIP or an affiliate or obtained from outside sources or the policyholder that are utilized by the AIP or an affiliate to establish, calculate, verify or determine a policyholder's program eligibility, insurance coverage, actual production history (APH) yields, premium, liability, or indemnity.
- **Relative** An individual who: 1) is a parent, brother, sister, child, or spouse, grandchild, or grandparent; or 2) either resides in the household of, or engages in business with respect to a farming operation with, the person in question regardless of whether or not the individual is related by blood, adoption or marriage.
- **Risk Subsidy** That portion of premium for an eligible crop insurance contract paid by FCIC on behalf of the policyholder.
- **Signature** The affixing of a person's name in a distinctive way as a form of identification or authorization, including an electronic or digital form approved by FCIC.
- **Verification** 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.

¹ 2015 Standard Reinsurance Agreement: RMA (Risk Management Agency) website: http://www.rma.usda.gov/pubs/ra/

² Ethics Resource Center -No Virginia, There Is No Such Thing as Independence, December 31, 2003 (Frank Navran)

IV. PRIVACY STATEMENT

One of the loss adjustment responsibilities in part 1, paragraph 8 of the LAM (Loss Adjustment Manual) is to explain to insureds their contractual obligations. Rarely will an individual enter into an agreement to make a purchase, have repairs made to personal property, or settle an insurance claim that will not contain language advising them of their rights and contractual obligations in accordance with Federal or State regulations. Two such Federal regulations (Acts) applicable to Federal crop insurance discussed herein are the Privacy Act of 1974 and the Civil Rights Act of 1964. The applicable rights and obligations under these Acts for individuals participating in the Federal crop insurance program are found in the Privacy Act and Nondiscrimination statements that must be included on any form (used in the administration of Federal crop insurance) that an individual signs or is provided to the individual on a separate form, for each form that is signed by the individual. If a separate form is provided, evidence of receipt of the statement must be shown by securing the signature of the applicant, agent, or loss adjuster, and the date at the time of collection.¹ The required Nondiscrimination statement will be reviewed later in discussion of Civil Rights.

According to the U.S. Department of Justice², the Privacy Act of 1974 is the result of Congress' concern about the illegal surveillance and investigation of individuals by Federal agencies that had been exposed during the Watergate scandal. The increasing use of computers by the Federal government was enabling the government to store and retrieve personal data by an individual's social security number (SSN). The purpose of the Privacy Act is to balance the government's need to maintain information about individuals with the rights of individuals to be protected against unwarranted invasions of their privacy stemming from Federal agencies' collection, maintenance, use, and disclosure of personal information about them. The Privacy Act, according to the U.S. Department of Justice, has four basic policy objectives:

- > To restrict disclosure of personally identifiable records maintained by agencies.
- > To grant individuals increased rights of access to agency records maintained on themselves.
- To grant individuals the right to seek amendment of agency records maintained on themselves upon a showing that the records are not accurate, relevant, timely, or complete.
- To establish a code of "fair information practices" which requires agencies to comply with statutory norms for collection, maintenance, and dissemination of records.

Following is an overview of the current (as of the date of this publication) Privacy Act statement³ mentioned previously, that must be provided to insureds of the Federal crop insurance program. This overview is not intended as a substitute for full disclosure of the statement.

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The following statements are made in accordance with the Privacy Act of 1974 (5 U.S.C. 552a):

- The Risk Management Agency (RMA) is authorized by the Federal Crop Insurance Act (7 U.S.C. 1501-1524) or other Acts, and the regulations promulgated thereunder, to solicit the information requested on documents established by RMA, or by approved insurance providers (AIPs), that have been approved by the Federal Crop Insurance Corporation (FCIC), to deliver Federal crop insurance.
- The information is necessary for AIPs and RMA to operate the Federal crop insurance program, determine program eligibility, conduct statistical analysis, and ensure program integrity.
- Information provided herein may be furnished to other Federal, State, or local agencies, as required or permitted by law, law enforcement agencies, courts or adjudicative bodies, foreign agencies, magistrate, administrative tribunal, AIPs contractors and cooperators, Comprehensive Information Management System (CIMS), congressional offices, or entities under contract with RMA.
- For insurance agents, certain information may also be disclosed to the public to assist interested individuals in locating agents in a particular area.

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- Disclosure of the information requested is voluntary. However, failure to correctly report the requested information may result in the rejection of this document by the AIP or RMA in accordance with the Standard Reinsurance Agreement between the AIP and FCIC, Federal regulations, or RMA-approved procedures and the denial of program eligibility or benefits derived therefrom.
- Also, failure to provide true and correct information may result in civil suit or criminal prosecution and the assessment of penalties or pursuit of other remedies.

¹ 2013 Documents and Supplemental Standards Handbook-FCIC 24040-4 dated 07-2013

- ² U.S. Department of Justice website: www.usdoj.gov/oip/04_7_1.html.
- ³ RMA (Risk Management Agency) website: *http://www.rma.usda.gov/regs/collection.html*

V. CIVIL RIGHTS

"Title VI" of the Civil Rights Act of 1964 states that: No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.

Programs and activities that receive Federal financial assistance from RMA are covered by Title VI and must operate in a non-discriminatory manner. Also, a recipient of RMA funding may not retaliate against any person because he or she opposed an unlawful practice or policy, or made charges, testified or participated in any complaint action under Title VI.

Anyone who believes there has been an act of discrimination on the basis of race, color or national origin, against any person or group, in a program or activity which receives RMA financial assistance, may file a complaint with the Office of Civil Rights under Title VI. The person or organization filing the complaint need not be a victim of the alleged discrimination but may complain on behalf of another person or group.

RMA handles Civil Rights complaints in accordance with Departmental Regulation 4330-2, "Nondiscrimination in Programs and Activities Receiving Federal Financial Assistance from USDA." Complaints are filed to the attention of USDA, Director, Office of Civil Rights in Washington D.C. at the address found in the "And Justice For All" poster and the required discrimination statement discussed later.¹



The Civil Rights Act applies to AIP's and insureds because they receive Federal financial assistance. AIP's reinsured by FCIC are considered primary recipients of federal funds because they receive expense reimbursement, reinsurance, retention of net losses, etc. from FCIC. Financial assistance is also provided to insureds through Federal crop insurance premium subsidies and loss payments.

Crop insurance agents that have a contract with an AIP to offer Federal crop insurance are expected to offer crop insurance policies to eligible producers in accordance with the nondiscrimination policy. Federal crop insurance must be made available to eligible producers without regard to Race, Religion, National Origin, Color, Political Beliefs, Disability, Gender, Age, Marital or Family Status, or Sexual Orientation.

The "And Justice For All" poster, must be posted by recipients of federal assistance, where feasible, in a facility used by the public (i.e., agent or agency office).⁶ In addition to the poster notifying recipients of Federal assistance of their Civil Rights, a nondiscrimination statement must also be included on any form a person signs or be provided to the person on separate form in which the

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person signs and a copy must be maintained by the AIP.⁵

Persons with complaints of discrimination should report such discrimination to the RMA. Departmental Regulation 4330-002, which is RMA's guidance for handling complaints, provides language detailing protections afforded to persons who file a complaint. The regulation states that no person shall be subjected to reprisal or harassment because he or she filed a discrimination complaint; participated in or contributed to the identification, investigation, prosecution, or resolution of civil rights violations in or by a recipient of Federal financial assistance from USDA; or otherwise aided or supported the enforcement of Federal or USDA civil rights laws, rules, regulations, or policies.

Important definitions contained in the Departmental Regulation 4330-002:

Beneficiary	A person or group of persons with an entitlement to receive or enjoy the benefits, services, resources, and information, or to participate in the activities and programs funded in whole or part by the USDA.
Complaint	A written allegation that discrimination has occurred or is occurring in a program or activity funded by USDA or that the recipient of USDA financial assistance is otherwise not in compliance with Federal Civil rights requirements.
Discrimination	Different treatment or denial of benefits, services, rights or privileges to a person or persons because of their race, color, religion, gender, age, national origin, marital status, familial status, or disability and, where appropriate, income status or political beliefs, by or in conjunction with any program or activity funded by USDA.
Federal Financial Assistance	Includes but is not limited to money paid; rental or use of Federal property at below-market value; gift of Federal property; asset forfeiture funds; Federal training; loan of Federal personnel, subsidies and other arrangements with the intent of providing assistance. Federal financial assistance does not include contract or guarantee or insurance, regulated programs, licenses, procurement

In support of the Civil Rights Act of 1964, RMA's policy statement reads in part: "RMA has an obligation to ensure all under-served farmers and ranchers, including women, minorities, small and limited resource, and socially-disadvantaged customers have equal access to program information and technical assistance necessary to participate in all RMA programs and activities.".²

contracts at market value, or programs that provide direct benefits.

¹ http://www.rma.usda.gov/aboutrma/civilrights/complaint.html

- ² http://www.rma.usda.gov/aboutrma/civilrights/policystate.html (Brandon C. Willis, Administrator; April 21, 2014)
- ³ Departmental Regulation 4330-002 Nondiscrimination in Programs and Activities Receiving Federal Financial Assistance From USDA; dated March 3, 1999
- ⁴ "And Justice For All" poster; FormAD-475-C (Revised 9/2006)
- ⁵ 2013 Documents and Supplemental Standards Handbook-FCIC 24040-04 dated 07-2013
- ⁶ 28 Code of Federal Regulations (CFR) Chapter I, Section 42.405

VI. ETHICS

In the discussion of the principles of insurance, it was stated that the adjuster that understands such principles recognizes that an insurance contract is constructed to be fair to both parties. By favoring the interest of the insurance company, the insured, or even one's self, the contract becomes unbalanced. The result is often a loss of trust and financial harm.

Expectations of high ethical conduct are not unique to the crop insurance industry. Professionals of all persuasions are expected to honor the trust placed in them by the consumers of their products and services. Currently, emphasis is being placed on ensuring that every individual in the crop insurance industry adheres to high standards of professional conduct accepted and practiced throughout the industry. The purpose of this section is to discuss what ethical standards are, the important role they play and highlight how individual behavior that conforms to these standards improves the crop insurance industry.

The framework for ethical behavior is more comprehensive and goes beyond just being legal. The dictionary defines ethical behavior as behavior conforming to accepted principles of right and wrong that govern the conduct of a profession. Thus, acting ethically involves making moral decisions, i.e., distinguishing between right and wrong, and not just being legal rather than illegal. Regulators rightfully monitor our behavior, but individuals of integrity exhibit ethical behavior for a much more important reason; because it is the right thing to do.

BASIC ETHICAL PRINCIPLES

The ethical process involves two steps. First one must know what is right and what is wrong, and second one must have the personal discipline, integrity and motivation to do what they know is right. Society puts punishments and penalties in place to protect the innocent and to motivate those with weak self-discipline, low personal integrity or poor judgment to act in accordance with accepted practices. Determining what is right is often challenging because frequently there is more than one right way to do most things. For this reason it is beneficial to identify a set of guiding principles to help determine what the most "right" decision is.

These principles should be adopted as a group and not just as individual principles. They are not necessarily listed in order of importance, nor is the list exhaustive. In determining right from wrong they should be viewed as guides for conscience, and are to be followed in both letter and spirit. However, in practice these fundamental principles sometimes conflict with each other and some trump others under certain circumstances. Regardless, as guiding principles they are bedrock; they never change.

Legal

As a free society we support and sustain the rule of law. An action that is against the law, or illegal, would be considered unethical. However, the opposite does not always hold. Being strictly legal does not necessarily guarantee that some action is also completely ethical. Of course exceptions could be made in unusual cases. For example, respecting a no trespassing sign is the legal thing to do. However, if the sign is posted by a swimming pool and a child is drowning, the ethical action is to ignore the sign and save the child.



<u>Honesty</u>

A universal characteristic of ethical people is personal honesty. Being honest means to be true, frank, straightforward and sincere, without any disguise or pretense. Honesty is the opposite of untruth, falseness, deception and fraudulent. Exceptions to honesty are usually only rationalizations for unethical behavior and the lack of personal integrity in acting honestly and telling the truth.

Trustworthiness

Being trustworthy means being dependable and reliable to do the right thing; to be counted on to act honestly. Earning the total confidence of one's peers to act with integrity is the hallmark of good character and is fundamental to personal and professional ethical behavior. Likewise, violating the trust and confidence of one's position or expected standards of ethical behavior is the essence of deceit and abuse.



Duty

Duty is synonymous with *due diligence*. It is fidelity to professional responsibilities. It is the moral obligation to diligently act in accordance with the laws, standards and recognized customs of society. With responsibility comes accountability. Duty is the requirement to accept the personal accountability associated with professional responsibility and faithfully and persistently act ethically. Just not getting caught is not enough. Duty demands a higher standard of performance regardless of oversight and review.

Confidentiality

Being entrusted with the confidence of another is an honor and high responsibility. Information is power, and the misuse of information is the misuse and/or abuse of power. Our society has placed strict sanctions and penalties on those who use privy information for their personal gain or selfish motives. Carelessness can be just as damaging. The expression, "loose lips sink ships" is descriptive of how destructive indiscretion and carelessness can be. An ethical person maintains strict confidentiality.

Fairness

There is no room for favoritism and preferential treatment. Acting objectively and impartially in accordance with rules and logic usually produces outcomes that are fair and acceptable to all parties. Granted, this is often easier said than done because being fair is not synonymous with being equal. A key to being fair is to follow established and accepted standards, procedures and practices, and avoid personal and/or arbitrary judgments.

Openness

Avoiding potential or apparent conflict of interest situations is the heart of acting in an open fashion. It is important to function with sufficient openness to not jeopardize independent judgment in performing official duties. Conflicts of interest involve the abuse, actual or potential, of the trust placed in you as a professional. Violations of this trust not only hurt the individuals and customers involved but also damage the image of the industry and reduce the trust people generally have in professionals.

PROCESS AND EVALUATION

Because the most ethical course of action is not always clear-cut it is useful to remember that ethical decisionmaking, as is any objective decision-making, is more of a process than an event. Any decision-making process can be described as a series of steps. These steps can be summarized as: 1) identifying and defining the issues, 2) gathering the information and collecting the facts, 3) listing the available options and decision criteria, 4) evaluating and testing the alternative options, 5) determining a course of action and how it will be monitored and 6) implementing the decision.

One approach to ensure an ethical outcome is to create a series of questions that can be used as criteria for determining the ethical veracity of a course of action. These questions serve as an ethical checklist to test if proper

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behavior is being followed. Obviously, not all questions apply to every situation, and depending upon any specific answer, follow-up questions likely should be asked. The importance of these questions is to cause critical thinking about motives and recognition of the impacts of specific actions.

Relevant Information

Have I correctly identified the issues and defined the ethical dilemma? Have I obtained as much information as possible to make an informed decision and action plan for this situation? What are the known facts? What are my assumptions? Who are the stakeholders and what are their desired outcomes?

Legal

What are the legal principles involved? What is the opinion of my legal counsel? Have I obeyed all of the pertinent laws? If not, why? What are the penalties I have avoided by obeying the law? Would an independent auditor agree with my assessment?

Honesty and Trustworthiness

Am I being honest? Is this action true, straightforward and without any disguise or pretense? What are my intentions for this action? Have I rationalized my decision on faulty or dishonest motives? If so, why? How would I feel if the details of this decision were disclosed for all to see? Would my peers be proud of my actions? Would my boss be satisfied with my behavior as a representative of him, or have I violated the trust and confidence placed in me? Have I taken unfair advantage of my position?

Duty

Did I act with due diligence? Were all established procedures and accepted practices followed completely? Did I faithfully and persistently perform my responsibilities? Have I violated my loyalty to principle or compromised my position of power or authority? Did I act in a manner that I don't have to worry about "getting caught"? If I have to justify my actions in court will I be successful? Can I sleep at night with a clear conscience? If not, why?



Confidentiality

Have I taken unfair advantage of insider information? If so, how and why? Have I honored the code of privacy expected of me? If the "shoe was on the other foot" so to speak, would I be satisfied with my behavior? Have I used discretion and care with the information about this situation? Have I misused or abused the information in my care? Have my motives been straightforward and not self-serving? Has anyone been harmed, or potentially harmed, because of my lack of care?

Fairness

Have I shown favoritism or given preferential treatment? If I was standing on the other side of the fence would I be satisfied? Given everything involved, am I comfortable with the outcome? If "everything involved" was correctly reported in the local newspaper, would I be embarrassed or ashamed? Would my coworkers and family be embarrassed or ashamed? Have I followed established and accepted standards, procedures and practices and avoided personal and/or arbitrary judgments?

Openness

Am I being fair and open? Have I avoided all potential or apparent conflicts of interest? Have I allowed anything or anyone to jeopardize an independent judgment in performing my official duties? Have I gained personally or allowed others to gain inappropriately, as a result of conflicting interests? Do I have anything to hide? If publicly known would my actions bring disgrace to my profession and myself? What are the perceptions of others regarding my actions? Am I satisfied that I have acted ethically?

In summary, if the answers to these questions are satisfactory in accordance with the fundamental principles that were outlined, then the specific behavior is most likely ethical beyond reasonable doubt. If the behavior is not, it should be apparent why it is unethical and which principle was violated.

The essence of ethical business behavior is personal integrity. The guide to personal integrity is that moral compass we call our conscience. The vast majority in our industry exhibit strong ethical behavior and are a credit to themselves, the companies they represent, and the industry. When they step over the line it is usually due to genuine misunderstanding and/or circumstances that can be easily corrected. There is no place in the crop insurance industry for individuals who have no conscience or integrity, and have no intention of adhering to the high ethical standards embraced by the rest of the industry.

The Crop Insurance Industry adopted the following Standards of Professional Conduct as their guiding principals.

We, as part of the Crop Insurance Industry, will promote professionalism throughout all levels and areas of marketing and claims and to this end we will:

- Promote professional conduct that enhances the positive image of the Industry.
- Represent ourselves honestly to our customers and sell our product based upon our company's strengths, not others weaknesses.
- Adjust losses utilizing Industry recognized procedures and practices and avoid conflicts of interest in those losses.
- Supervise and maintain a qualified staff and make available current materials and training to keep them knowledgeable and capable.
- Require agents, agencies or members of our staff to support Industry recognized loss adjustment procedures.
- Participate in the process that assures continued improvement of the Industry's procedures.
- Act in good faith in settlement of disputes involving other companies.
- Maintain a professional quality control system that identifies and corrects any weaknesses or deficiencies in delivering a quality product to the customer.
- Support Industry related activities on a local, regional and national level.

We recognize that our commitment to these Standards improves the insurance environment for the Industry and the consumer.

National Crop Insurance Services, Inc.: Crop Insurance Today, Vol. 33, No. 2, May 2000

VII. ANTITRUST

Federal Antitrust Laws

Federal antitrust law is found in three principal statutes and in decisions of courts interpreting them. The earliest, and most frequently applied law is the Sherman Act, which was passed in 1890. In general, the Sherman Act prohibits combinations, contracts, and conspiracies in restraint of trade as well as monopolistic practices. The Clayton Act, enacted in 1914, prohibits anti-competitive mergers and acquisitions, exclusive dealing and tying arrangements which substantially lessen competition. In 1936, Congress passed the Robinson-Patman Act to prohibit price discrimination in the sale of commodities and in providing promotional assistance.

This discussion of antitrust laws will focus primarily on prohibitions against combinations, contracts, and conspiracies in restraint of trade that are found in Section 1 of the Sherman Act. In their interpretations of Section 1 of the Sherman Act, courts have found some actions so inherently evil that they are illegal in themselves. Those actions are: 1) price fixing; 2) allocation of markets; 3) allocations of customers; and 4) boycotts. Therefore, simply the fact of an agreement in any of those areas is sufficient to subject the participants to the sanctions authorized under federal law for violations of the antitrust laws. In short, if a court or a jury finds that any of the foregoing acts have occurred, a defendant cannot escape responsibility or liability for them by offering any justification.



Penalties for violation of Section 1 of the Sherman Act (as well as other provisions of the antitrust laws) are severe. Penalties are both criminal and civil in nature. A criminal violation of the antitrust laws constitutes a federal felony. Individuals can be sentenced to ten years in prison and a payment of fines up to \$1,000,000. Corporations can be fined up to \$100,000,000.

Civil liabilities for federal antitrust violations are also severe, as they involve payment of treble damages for any injuries suffered (actual damages sustained by a plaintiff multiplied by three), reimbursement of the injured parties' attorneys fees, and injunctive relief to prevent repetition of the illegal actions. Defense costs in any antitrust proceeding are substantial.

State Antitrust Laws

Like the federal government, the states have enacted their own versions of antitrust laws. A summary such as this one cannot attempt to explain the antitrust laws of any one state, let alone the laws of all fifty states. Two recurring themes of state legislation, however, need to be noted.

First, state antitrust laws generally mirror federal antitrust laws, with the principal difference lying in their scope of application (such as reaching actions only occurring within a given state or whose effects are felt within a given state) and in the remedies provided. Violation of a state antitrust law, therefore, frequently results in a violation of federal law (absent an exemption). As a result, adherence to state antitrust laws is as important as is adherence to federal antitrust laws.

Second, enforcement of state antitrust laws is increasingly vigorous. Private plaintiffs who have suffered from an infringement or denial of legal rights by trade practices constituting an antitrust violation and, if proven, State Attorney Generals are suing more frequently.

The insurance industry enjoys a limited exemption provided by the McCarran-Ferguson Act from federal antitrust laws. The insurance exemption depends on the occurrence of each of the following three conditions for the activity in question:

- Must constitute the business of insurance.
- Must be subject to regulation by state law.
- Cannot constitute a boycott, coercion, or intimidation.

All of these conditions must be present for there to be an exemption from federal antitrust laws. In other words, the presence of one or two of these conditions, without all three, leaves the participants exposed to liability under the federal antitrust laws, plus any exposure which they might have under applicable state antitrust laws.

Activities (cannot involve boycott, intimidation, or coercion) that are considered the business of insurance and therefore exempted by the McCarran-Ferguson Act from federal antitrust law:

- 1. Have the effect of spreading or transferring a policyholder's risk,
- 2. Are integral parts of the policy relationship between the insurer and the insured, and
- 3. Are limited to entities within the insurance industry.

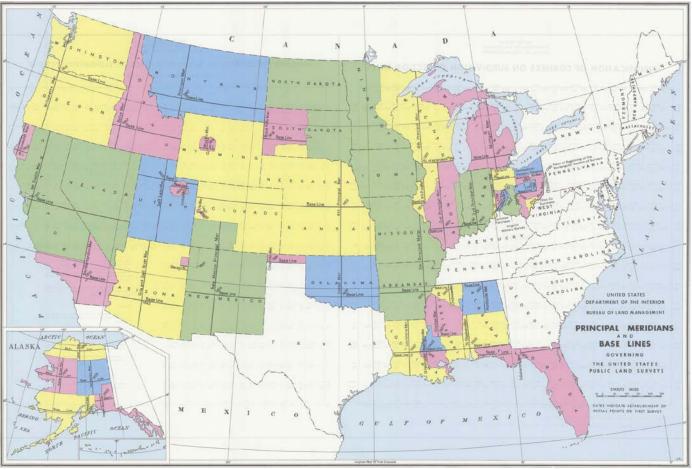
Boycott

For purposes of antitrust laws and the McCarran-Ferguson Act exemption, a boycott generally can be considered to be an agreement between two or more competitors (that is, insurance carriers) not to do business with a third-party. A third-party can be either a person who would constitute a customer of an insurance company or a person who is a provider of services or products to an insurance company or its insureds. Thus, it is illegal for two or more carriers (or their agents) to agree not to accept a person as an insured; similarly, it is illegal for two or more carriers (or their adjusters) to agree not to use a specific provider of a service or product.

The antitrust laws do not limit the freedom of unilateral action. If an individual carrier decides that it will not do business with a particular risk or particular provider, it may implement that decision on its own without jeopardy under the antitrust laws. What the antitrust laws condemn, and similarly what the McCarran-Ferguson Act does not exempt, therefore, is the agreement by one carrier with one or more other carriers to terminate or to limit their dealings with third parties.

National Crop Insurance Services, Inc.: Compliance with Federal Antitrust Laws

National Crop Insurance Services, Inc.: Crop Insurance Today, quarterly issues August 2000 through November 2001



VIII. LEGAL DESCRIPTIONS AND OTHER TYPES OF LAND DESCRIPTIONS



Legal Descriptions

Adequate legal descriptions of land and field locations are essential to the crop adjuster who must determine if the damaged crop is covered by insurance.

The original American colonies followed a metes and bounds system. Boundaries were formed by reciting courses and distances from point to point around a tract. Boundary disputes were common because many of the landmarks were not permanent.

The federal government recognized the weakness of this system, and in 1875 adopted the rectangular survey. It applies to 30 states, including Alaska (Figure 1). Under this system, a north-south line called a principal meridian, and baselines running east and west were established. The survey was made in 24 mile squares on each side of these lines, which were further divided into areas six miles

R1E R2E R2W R1W R3W R3E R4W T4N T3N TBN R3E T2N T1N Base Line T15 T2S T25 R4W Т35 T45

Prime Meridian

Figure 2

square called townships. Townships are identified by their distances from the meridian and baseline; for example T 3N, R 3E is located three townships north of the baseline, and three townships east of the principal meridian (Figure 2).

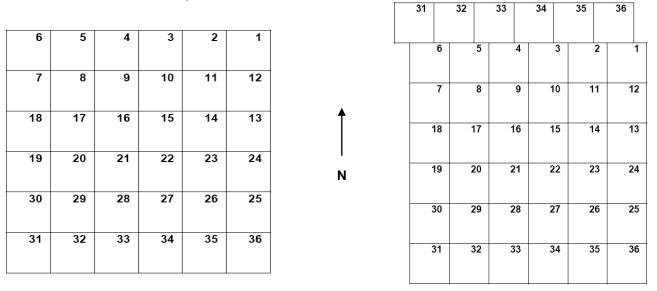


Figure 3

Figure 4

Townships are divided into 36 sections, each measuring one mile by one mile containing about 640 acres (Figure 3). Due to the curvature of the earth, it was necessary to correct for distance as the survey moved north. At every fifth row of townships, the corrections are found in sections 1 through 6 on the north and section 6, 7, 18, 19, 30 and 31 on the west (Figure 4). Areas of these sections will be more or less than 640 acres.

Survey townships do not always coincide with areas of political "Townships." Survey townships are located by sixmile intervals from meridians and range lines. Both distances must be used properly to locate a township. To further pinpoint the location, county and state names should be identified.

Acreages may not be exact within a section; hence, the term "more or less" is used to designate property. Highway and street rights-of-way can further reduce farm acreage.

The address 410 South Garth, Columbia, Missouri, USA, describes the location of one particular house in the whole United States. Similarly, the Northeast quarter of Section 35, Township 6 South, Range 4 East (NE¹/₄ Sec 35, Twp 6S, Rge 4E) Riley County, Kansas describes just one 160-acre plot of ground in Kansas.

Legal Description Terms

Land Description	Legal language that describes the location of fields upon which insured crops are grown.
Land Grant	A land grant is an area of land to which title was conferred by a predecessor government and confirmed by the U.S Government after the territory in which it is situated was acquired by the United States.
One Acre	An area 208 feet 8 inches square containing 43,560 square feet.
Plat Book	Book of maps showing the legal descriptions within a state or county.
Range	The east-west coordinate of the U.S. Public Lands Survey and in combination with the other coordinate (township) designates a particular tract of land six miles square (36 sections).
Range Coordinate	The vertical coordinate of the U.S. Public Lands Survey, surveyed at six-mile intervals. Range coordinates intersect with the horizontal coordinates or "township coordinate", designating a particular tract of land six miles square

	called a "township". The six-mile square area is divided into 36 sections. For crop insurance purposes, range coordinates are used in conjunction with township coordinates and section numbers to locate acreage.
Range Lines	The vertical boundary lines of a range coordinate which intersect with township lines.
Section	A tract of land one mile square containing more or less than 640 acres. Can be subdivided into half sections, quarters, 80's, 40's, lots, or smaller divisions.
Township Coordinate	The horizontal coordinate of the U.S. Public Lands Survey, surveyed at six-mile intervals. Township coordinates intersect with the vertical coordinates or "range coordinates", designating a particular tract of land six miles square called a "township". The six-mile square area is divided into 36 sections. For crop insurance purposes, township coordinates are used in conjunction with range coordinates and section numbers to locate acreage.
Township Lines	The horizontal boundary lines of a township coordinate which intersect with range lines.
Township	A tract of land six miles square which lies at the intersection of a township coordinate and a range coordinate. A township is identified based on its distance from the principal meridian and the baseline.

Common Land Measurements

1 mile	320 rods or 5,280 feet
1 rod	16 ½ feet
1 square rod	272 ¹ / ₂ square feet
1 acre	contains 43,560 square feet
1 acre	160 square rods
1 acre	eight rods wide by 20 rods long, or any combination that when multiplied by each other equals 160, e.g., four rods wide by 40 rods long.

Other Types of Land Description

Not all states have a rectangular survey system, and in those states section equivalents such as French Land Grants, Spanish Land Grants, railroad surveys, leagues, labors and Virginia Military Lands may be used.

French Land Grants are generally found in areas bordering the Mississippi and Ohio rivers and their tributaries. French Land Grants are measured in the French unit of measure called an arpent. Arpents are approximately equivalent to 0.84 acre.

According to the "nationalatlas.gov" website, French arpent land divisions are long narrow parcels of land usually found along the navigable streams of southern Louisiana, and also found along major waterways in other areas. This system of land





Illustration of French Land Grants

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subdivision was begun by French settlers in the 1700s, according to typical French practice at the time and was continued by both the Spanish and by the American government after the acquisition of the Louisiana Purchase. A typical French arpent land division is 2 to 4 arpents wide along the river by 40 to 60 arpents deep, while the Spanish arpent land divisions tend to be 6 to 8 arpents wide by 40 arpents deep. This method of land division provided each land-owner with river frontage as well as land suitable for cultivation and habitation. These areas are given numbers just like standard sections, although the section numbers frequently exceed the normal upper limit of 36.

Many areas of Texas are legally identified by the original Spanish or Mexican grant name or number. These land grants vary in size and shape, many being larger than 640 acres. Leagues are uniform in both shape and size and are also larger than 640 acres. Grants are identified by name (Manuel Gomez); leagues by number (I-2958) or name (W. Smith). Labors are 1/25 of a league.

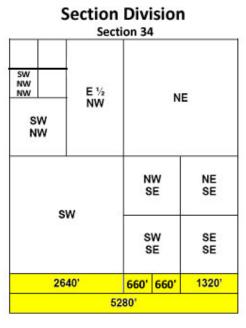
Surveys were also performed by railroad companies as they expanded in the mid-1880s. The railroad surveyors established their own base and range lines which were parallel and perpendicular to the railroad right-of-way, therefore, they vary in direction. From these were established "sections," the majority of which are square and are 640 acres in size. Only where a survey block converges with either another block or an old Spanish grant or league(s) does the uniformity vary.

Within the rectangular survey areas, and in states where the rectangular survey is not used, some irregular tracts of land are still described by the metes and bounds system. This is the system where each parcel of land is individually described and bounded. It is used in the states of the Eastern seaboard, Vermont, Kentucky, Tennessee and parts of Texas.

The United States Military Tract located in central Ohio is subdivided into five mile square townships instead of six.

MAPS AND NAVIGATION

Adjusters must be good navigators and must become an expert at locating land by legal description. Equipment to accomplish this is readily available. State road maps are recommended for general travel, but for more specific and detailed location of land within a county and township, use county and township plat books. These can be found at abstract offices in most county seat towns or obtained from the county engineer or state highway department. County maps are especially useful since they often include all township roads plus physical features, such as streams, bridges, railroads, churches, school houses, cemeteries, etc. Some county maps include land ownership.



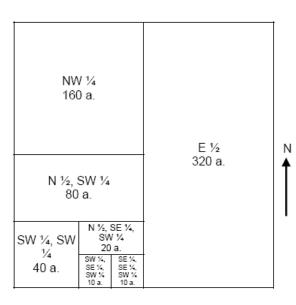


Figure 5



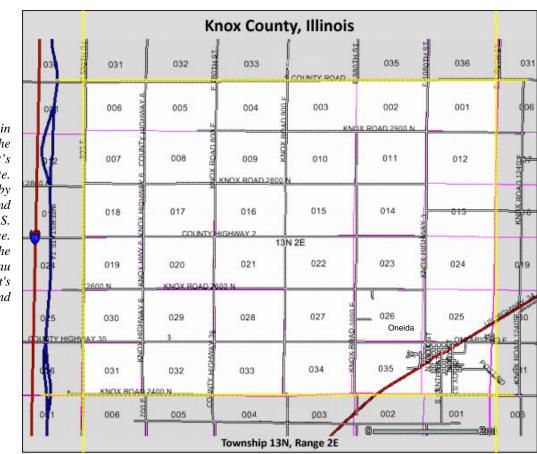
Sections are often divided into quarters and smaller units of division as shown in Figure 5. Locating quarter boundaries is usually accomplished by locating fences every one-half mile. Even if there isn't a fence or physical marking, an adjuster can accurately locate the one-half mile line by measuring one-half of a mile (2,640 feet) from the nearest section line. Figure 6 illustrates the number of acres contained in various divisions of a 640 acre section that an adjuster may encounter. Note that land descriptions in the rectangular survey system begin with the smallest section division first when describing a parcel of land. Section lines are usually located on county or township roads, as illustrated in Figure 7.

An adjuster, even though inexperienced, should have little difficulty in locating a field described in an insurance policy. Using the map illustration shown in Figure 7, locate and plan a driving route to reach 163.2 acres of corn in the northwest quarter (NW ¼) of Section 17, Township 13N, Range 2E in Knox County, Illinois.

The Figure 7 map illustration reveals that Section 17 lies north and west of the town of Oneida. To map directions from Oneida to the corn field located in Section 17, an adjuster could travel north two miles on County Highway 3 and turn left (west) on County Highway 2. Then take County Highway 2 west four miles to County Highway 6. At County Highway 6, turn right (north) and travel approximately one-half mile. The corn field will be located on the (east) side of County Highway 6. Please note that this is only one of many routes that an adjuster could map to reach the same location.

Figure 7

The illustration shown in Figure 7 was taken from the Bureau of Land Management's *GeoCommunicator* website. This website is sponsored by the Bureau ofLand Management and the U.S. Forest Service. *GeoCommunicator* is the publication site for the Bureau Land Management's of Integrated National Land System (NILS).



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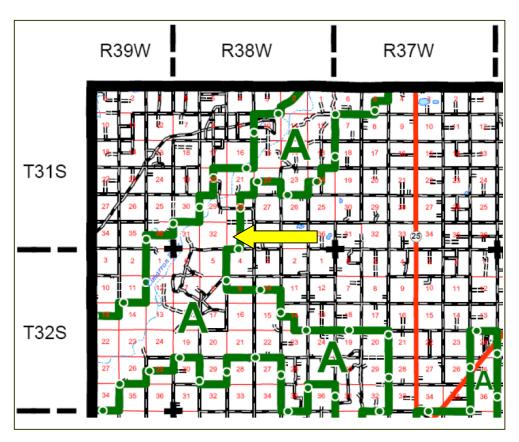


Figure 8

Concluding this section is another example of the use of proper legal descriptions. One of the loss adjuster's responsibilities outlined in Part 1 of the Loss Adjustment Manual (LAM) for Federal crop insurance is that acreage be inspected for the proper classification. Illustrated in Figure 8 is a portion of a FCI-33 County Actuarial Map for Stevens County, Kansas, published by United States Department of Agriculture's Risk Management Agency. This map shows that land located in Section 32, Township 31 South, Range 38 West (Sec. 32, Twp. 31S, Rge 38W) in Stevens County, Kansas should be classified as being located in high-risk area "A". Accurate land identification benefits both the insured and the insurance provider.

IX. GENERAL INSURANCE DEFINITIONS

(Certain definitions of terms may differ slightly from duplicate terms contained within Federal crop insurance policies and regulations)

Abandonment	Discontinuance by the insured of normal cultural practices because he or she does not intend to harvest the crop.
Actual Cash Value	The local market value of the insured crop at the time of loss.
Adhesion (contract of)	Agreement prepared by an insurance company and offered to prospective insureds on a take-it-or-leave-it basis. If the contracts are misinterpreted by insureds, courts have ruled in their favor since the insureds had no input into the contract. All insurance contracts have been deemed by courts to be contracts of adhesion.
Adjuster	A person who has the ability to ascertain the amount of loss and the authority from the company to enter into an agreement of settlement with the insured.
Adjustment	The process by which the adjuster determines the amount of loss.
Agent	 Individual who sells and services insurance policies in either of two classifications: 1. Independent agent represents at least two insurance companies and services clients by searching the market for the most advantageous price for the most coverage. The agent's commission is a percentage of each premium paid and includes a fee for servicing the insured's policy. 2. Direct writer represents only one company and sells only its policies. This agent is paid on a commission basis in much the same manner as the independent agent.
Aleatory Contract	Contract that may or may not provide more in benefits than premiums paid.
All Risk (Perils)	Insurance that covers each and every loss except for those specifically excluded. If the insurance company does not specifically exclude a particular loss, it is automatically covered. This is the broadest type of property policy that can be purchased.
Ambiguity	Language in the insurance policy that can be considered unclear or subject to different interpretations. Under these circumstances, the courts have generally ruled in favor of the insured individuals and against insurance companies since insurance policies are deemed to be contracts of adhesion, and also that insurance companies have sufficient legal talent at their disposal to make policy language clear.
Annual Policy	Contract remaining in force for up to 12 months unless cancelled earlier. After 12 months the policy can either be renewed or not renewed by the insurance company or the insured.

Application A prepared form signed by the prospective insured giving information on the basis of which the company issues a policy. A copy is usually made a part of the policy. Appraisal A survey to determine a property's insurable value or the amount of loss. Boycott For the purposes of antitrust laws and the McCarran-Ferguson Act exemption, a boycott generally can be considered to be an agreement between two or more competitors (that is, insurance carriers) not to do business with a third-party. A third-party can be either a customer of an insurance company or a provider of services or products to an insurance company or its insureds. Insurance salesperson who searches the marketplace in the interest of clients, Broker not insurance companies. Cancellation A document discontinuing coverage. Claim Request by an insured for indemnification by an insurance company for loss incurred from an insured peril. To compel by force, intimidation, or authority, esp. without regard for Coerce individual desire or volition: e.g., They coerced him into signing the document. Coercion The act of coercing; use of force or intimidation to obtain compliance. Companion Hail Plan Its purpose is to provide acre basis coverage against hail, fire and transit perils on the portion of the crop not insured under the insured's policy reinsured or approved by the FCIC. Concealment Intention to withhold or hide information. If an insured withholds information on a material fact, about which the insurance company has no knowledge, the company has grounds to void the contract. Continuous Policy Policy that remains in force until cancellation by the insured or cancellation by the insurance company for failure of the insured to meet the terms of the policy. Declarations In most states the front page of a policy gives factual statements about the risk: policy number, inception and termination dates, insured's name and address, coverage, type of crop, legal description of crop location, endorsements, and amount of premium. Deductible The amount of the risk which the insured retains, usually expressed as a percentage. Deferment Postponement of a settlement to a future time when the adjuster can make an accurate adjustment. Direct Loss Property loss in which the insured peril is the proximate cause (an unbroken chain of events) of the damage or destruction. Most basic property insurance policies (such as the standard fire policy) insure against only direct loss and not INDIRECT OR CONSEQUENTIAL LOSS.

Double	Two or more policies on the same crop. (Can be two different companies or the same company with landlord and tenant insured.)
Endorsement	An amendment in writing added to the insurance contract used principally to alter the printed terms of the policy.
Estoppel	A bar or impediment preventing a party from asserting a fact or a claim inconsistent with a position that party previously took, either by conduct or words, esp. where a representation has been relied or acted upon by others. For example, an insurer that has, as a practice accepted late filed claims may be estopped from denying any late filed claim.
Exclusions	Provision in an insurance policy that indicates what is denied coverage. For example, common exclusions deemed so catastrophic in nature that they are uninsurable, such as war.
Fraud	Deception or strategy used to deceive or cheat, including misrepresentation or concealment.
Fraudulent Claim	Demand without foundation, such as a claim submitted to an insurance company by an insured who caused a loss, or for a loss that never occurred.
Fraudulent Misrepresentation	Dishonest statement to induce an insurance company to write coverage on an applicant. If the company knew the truth, it would not accept the applicant. Fraudulent misrepresentation gives a property and casualty company grounds to terminate a policy at any time.
Hazard	Circumstance that increases the likelihood or probable severity of a loss.
Indemnity	Compensation for a loss from an insured peril.
Indirect Loss	Loss that is not a direct result of a peril.
Insurable Interest	An insurable interest exists when an owner of property has an expectation of monetary loss if that property is damaged or destroyed. Insurable interest has to exist both at the inception of the contract and at the time of loss.
Insurance	Coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified peril.
Insurance in Force	The total amount of insurance under the contract in force on the named insured's crop interest.
Insured	The party named on the insurance contract to whom or on behalf of whom the insurer agrees to pay losses covered under the policy. (Also referred to as "Policyholder.")
Insurer	The company issuing the insurance contract.
Intimidation	To force into or deter from some action by inducing fear: e.g., to intimidate an insured into signing a claim.

- Loss Payable Clause A clause in the contract providing for payment of the loss for which the insurer is liable to the insured and to a third party, such as a lien-holder, bank, etc.
- Loss Ratio Relationship of incurred losses plus loss adjustment expense to earned premiums.
- Minimum Loss A policy provision whereby the insured peril is not covered for loss until the loss exceeds a certain level (usually 5 percent). If the loss exceeds the minimum, the full amount is paid.
- **Misrepresentation** Intent to defraud. An insured is required to answer truthfully all questions on the application. The insurance company can void a contract if it would not have issued a policy had it known the true facts.
- **Moral Hazard** Circumstance which increases the probability of loss because of an applicant's personal habits or morals.
- Morale Hazard Circumstance that increases the probability of loss because of an insured's indifferent attitude.
- Named Perils Insurance under which covered perils are listed. Benefits for a covered loss are paid to the policyholder. If an unlisted peril strikes, no benefits are paid.
- Non-Renewal A policy which underwriting standard and judgment determine is not to be offered to the insured at renewal date.
- **Non-Waiver** A document expressing agreement between the insured and the adjuster to proceed with the inspection of crops without waiving the rights of either the company or insured.
- **Optional Provision** Provisions the insured may choose which alter the regular insurance contract. For example, an optional provision may provide additional perils covered for an increased premium.
- Percentage Policy Policy in which recovery of loss is based on a percentage of loss per acre.
- **Peril** A specific risk or cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft.
- Perils Insured Against The insuring clause in the policy states the perils covered.
- **Policy** The printed and signed contract between the insured and company.
- Policy Change Amendment to the insurance contract.
- **Policyholder** Individual or other entity who owns an insurance policy. Synonymous with policyowner. (*See section III for Federal Crop Insurance definition of term*)
- **Policy Termination** Cancellation of a policy other than at renewal.
- **Premium** Amount charged for insurance contract.
- Proof Of Loss The document on which the amount of loss is recorded, also called

- **Pro Rata Clause** A clause in an insurance contract providing that losses will be paid in the proportion that the amount of the contract bears to the entire amount of insurance covering the loss.
- **Reporting Period** Each contract has a stipulation requiring a report of loss to the company within a certain length of time.
- **Risk** The exposure to full liability on each insured crop listed on the policy for the perils insured.
- Salvage Damaged property an insurer takes over to reduce its loss after paying a claim.
- Settlement The process by which the adjuster completes the crop inspection, determines the amount of loss, and secures the insured's written agreement to terms and conditions of the loss adjustment.
- **Subrogation**...... The legal process by which an insurance company, after paying a loss, seeks to recover the amount of the loss from another who is legally liable for it.
- Waive An agreement to suspend the written provisions of a policy.
- Withdrawal of Claim The document in which the claimant agrees to withdraw his or her claim because there is not a payable loss under the policy terms. Sometimes called a "release."