

**FEDERAL CROP INSURANCE PROGRAM
PROFITABILITY AND EFFECTIVENESS ANALYSIS**

1999 UPDATE

Prepared for:

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I. INTRODUCTION

PricewaterhouseCoopers LLP (PwC) was engaged in 1996 by Morrison & Hecker L.L.P. to conduct a Profitability and Effectiveness Analysis of the Multiple Peril Crop Insurance (“MPCI”) program reinsured by the Federal Crop Insurance Corporation (“FCIC”). Our final report (“the 1997 Report”) of our findings regarding this program was delivered to Morrison & Hecker in 1997, and forms Appendix A to this report. Subsequently, we have been engaged to perform further analysis and to update the 1997 report.

1997 Report

The approach used for measuring profitability of MPCI companies is described in our 1997 Report. To prepare the benchmark analysis, PwC accumulated data from nine member companies who were being audited by the General Accounting Office (“GAO”) concerning certain aspects of the MPCI program. The group was subsequently reduced to eight when one company was acquired by another member of National Crop Insurance Services, Inc. (“NCIS”). However, since the acquirer is an NCIS member, the integrity and consistency of the results is maintained. The premium of these nine (subsequently, eight) companies accounts for approximately 85% of total MPCI premium for the entire program. To the extent possible, our analysis focuses on data made available by private insurers. Where necessary, we have supplemented aggregate numbers for the MPCI and Property / Casualty industry. Industry Data are provided for years 1988 through 1995.

Section II of the 1997 Report documents our discussion of profitability and our measurement methodology. Results are provided for the MPCI industry and for the Property / Casualty Insurance industry as whole.

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Section III of the 1997 Report provides comparison of the components of MPCCI and Property / Casualty industry expenses. This section also addresses the results of the FCIC's simplification efforts and an appropriate basis for determining allowable expenses.

Finally, in an Appendix to the 1997 Report, we address specific issues raised in the report of the GAO ("1997 GAO Report") in its audit of the nine MPCCI companies for the 1994 - 1995 years. ("Crop Insurance: Opportunities exist to reduce government costs for private sector delivery" GAO/RCED-97-70 GAO, April 1997.)

1999 Update

Morrison & Hecker requested a further update in 1999 as a result of a report entitled: "Review of Risk Management Agency's Federal Crop Insurance Program To Strengthen Its Program Integrity and Safety Net Provisions" dated March 15, 1999 issued by the Office of the Inspector General of the U.S. Department of Agriculture (the "1999 OIG Report"). We comment on specific issues in the 1999 OIG report in Section II of this report. The 1999 Update includes analysis of both profitability and expenses. Data for MPCCI are provided for 1988 through 1998; comparable property and casualty data are provided for years through 1997. Private Sector participation in the federal crop insurance program, and the program itself, have grown over the past eleven years for which we have accumulated data (from \$1222 million in risk premium in 1988 to \$1.334 billion in 1998).

**II. SUMMARY AND
CONCLUSIONS**

KEY POINTS:

Developments in MPCCI since the 1997 Report include the negotiation of a new Standard Reinsurance Agreement (“SRA”) and the publication of the 1999 OIG Report.

The 1999 OIG Report contains multiple errors, including ignorance of the operation of the current SRA. The OIG’s methodology is also flawed, particularly its focus on a limited number of years in deriving its conclusions.

In 1997 FCIC negotiated a new SRA for the 1998 reinsurance year (July 1, 1997 to June 30, 1998) which changed the risk allocation formula to allocate more of the risk to the MPCCI companies. The SRA also changed the amount of reimbursement that the MPCCI companies receive for their expenses, and the Agricultural Research, Extension and Reform Act of 1998 further reduced the reimbursement percentage to a maximum of 24.5%. The difference between incurred expenses and reimbursement has grown since 1995 to the point where the industry lost \$100 million in 1998. As long as underwriting results are positive, these will offset the loss on expenses. However, a catastrophic year that results in underwriting losses will be exacerbated by the expense reimbursement policy.

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KEY POINTS (Continued):

The rate of return on the MPCCI line of business over the eleven year period from 1988 to 1998 is lower than that of the Property and Casualty Insurance industry as a whole. The rate of return has increased since the 1997 Report, because of favorable underwriting results in 1996-8. The years 1996-8 are the three lowest consecutive loss years in the period 1939 through 1998 (quoted in Economics of Agricultural Crop Insurance: Theory and Evidence (Kluwer Academic Publishers, 1994)).

The improved rate of return on the MPCCI line of business should not be viewed as permanent. The MPCCI line remains subject to the random effects of catastrophic losses. Of the past 20 years, 4 have been “catastrophic” from both a disaster and an insurance perspective. The last such catastrophic year occurred in 1993, when MPCCI companies lost 15% of their capital. The changes implemented in the 1998 SRA significantly increase the MPCCI companies' risk of loss. If the 1988 SRA had applied in 1998, assuming 1998 loss ratios at the level experienced during the 1988 year, MPCCI companies' losses in 1998 would have amounted to \$55 million. In contrast, some experts have suggested that, under the 1998 SRA and assuming 1988 loss ratios, the MPCCI companies' 1998 losses would have exceeded \$450 million, an increase of over 700%.

The MPCCI companies consistently continue to show significantly lower total expense ratios than either the Property/Casualty Insurance Industry, or the “retail lines” subgroup. The MPCCI industry showed significantly declining expense ratios up to 1995; after this period, the total expense ratios for the industry have remained stable, while those for Property/Casualty Insurance lines have tended to increase slightly.

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**III. COMMENTS ON THE
1999 OIG REPORT**

The following are our observations on the 1999 Report of the Office of the Inspector General.

1. There is no recognition in the report of what constitutes “good program management”. One definition is the growth of the covered acreage, which has been significant under private sector program management. Expansion of covered acreage helps to reduce the need for both disaster relief and stop-loss insurance payments because the risk of loss is spread among more participants. The 1999 OIG Report focuses on reinsured company revenue. In fact, an increase in revenue is consistent with the “good program management” objective of wider coverage of producers.
2. The report appears to confuse “revenue” with net revenue, for example, by ignoring the expenses incurred by the MPCCI companies.
3. The report does not acknowledge that the reinsured companies are private sector, for-profit entities, that need to make commercially-competitive rates of return on their exposure in the MPCCI program if they are to continue to participate in the program. Being Property and Casualty Insurance companies, the appropriate benchmark for comparison with private sector entities is the Property and Casualty Insurance Industry. (See below in Section IV for comparative yield statistics.) The Federal Government is not subject to commercial pressures and therefore can operate without making a profit. The results of such an approach were demonstrated prior to 1980. The program both failed to meet the broad coverage objective, and subjected the Federal Government to random, unpredictable funding demands for disaster relief.

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4. The report demonstrates ignorance of the operation of the current SRA executed for 1998 and subsequent reinsurance years. The impression conveyed by the OIG report is that reinsured companies are at no risk, and have no commercial incentive to manage claims, because claim payments are recovered from the Government. In fact, the SRA sets a risk-sharing corridor. For example, for the commercial fund, 50% of all claim amounts paid in excess of 100% of premium are retained by the MPCCI companies.
5. OIG's analysis is limited to four years of experience. Analysis of a longer series of data for the industry shows that, as one would expect with any catastrophic insurance coverage, there will be many years of apparently favorable financial results, with occasional, but devastating, catastrophic losses. Focus on a short time period, such as four years of gains, is as misleading as would be a focus on a few years with catastrophic losses. The counter-example to the OIG would be to take the results of insurance activity by the MPCCI companies for the five years 1988-93 (which happen to include two catastrophic years). As our example shows, focus on too-short a series of results can result in misleading conclusions, and the credibility of the analysis would be increased by using all available data.
6. The 1999 OIG report sets up tables such as Figure 1, page 10, that relate otherwise unrelated components and try to draw conclusions. Figure 1 contains the administrative revenues earned by the MPCCI companies. The table shows increases (due to the expanding program base) followed by a decrease (due to a reduction in the expense allowance percentage). However, this trend is then related to the producer indemnities, or claims paid net of premiums paid by insureds. The indemnities fluctuate, as indeed they should (that is the purpose of insurance). In three out of four years they are less than the amount of expenses paid by the FCIC. But there is no logical link or relationship between these two items, and to suggest that there is, by placing them adjacent to each other on a chart, is misleading.
7. The OIG's suggestion that the Farm Services Agency ("FSA") should be delivering the Crop Insurance Program is based on faulty analysis. The OIG suggests that the FSA could deliver the same program as the MPCCI companies, presumably at the same level of service and customer satisfaction, and claims that the FSA's cost would be lower than the private sector's. In 1998, FCIC paid the MPCCI companies \$759 million, to fund both administrative expenses and underwriting losses. The amount incurred in

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administrative expense by the eight MPCCI companies participating in our survey (accounting for approximately 85% of the industry's premium) to deliver the program in 1998 was \$438 million. The cost to the FSA to deliver the crop insurance program is unknown, and would have to be estimated. If the FSA were to take over the program, it would incur both administrative expenses *and* underwriting losses, similar to the MPCCI companies. In addition, the FSA would also incur significant start-up expenses of developing systems, contracting agents, and establishing an entire infrastructure necessary to administer the business.

IV. PROFITABILITY

KEY POINTS:

The rate of return on the MPCCI line of business (15.8%) over the eleven year period from 1988-1998 is lower than that of the Property and Casualty Insurance industry as a whole (16.6%). The rate of return has increased from the 11.7% recorded in the 1997 Report, because of favorable underwriting results in 1996-8. The years 1996-8 are the three lowest consecutive loss years in the period for which we have industry data (1939 through 1998). At the same time the profitability of the Property and Casualty Insurance industry has also increased, though not by as much, resulting in a narrowing of the underperformance margin of MPCCI.

The volatility of returns over the eleven-year period from 1988-1998 is approximately one-third greater in the MPCCI line of business than in the Property and Casualty Insurance industry as a whole (10.1 vs.7.6). The MPCCI line continues to demonstrate inherently greater risk, as measured by the volatility of the returns.

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BACKGROUND

A measure of profitability in any industry is the rate of return on capital employed. MPC I reinsured companies are Property / Casualty insurers. The companies that write MPC I business participate as insurers, and in doing so, place their own capital at risk.

METHODOLOGY

PROFITABILITY OF THE PROPERTY AND CASUALTY INSURANCE INDUSTRY

Although there are different definitions of Property / Casualty profitability, it is possible to develop some meaningful measures for both profit and capital employed and to draw some relevant conclusions.

To simplify comparisons, we will exclude consideration of income taxes. Thus, we have defined a measure of return, “Total Pretax Income,” calculated below.

Total Pretax Income	=	net underwriting income	+	other misc. income/exp.	+	net investment income	+	realized capital gain/loss	+	unrealized capital gain/loss
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For “capital employed,” the measure of shareholder capital committed to property and casualty insurance business is the total policyholder surplus. Policyholder surplus is the excess of a company’s assets over its liabilities. The surplus of a company provides protection against adverse deviation from underwriting and investment results. The Property / Casualty insurance industry has enjoyed healthy returns in the last few years, largely fuelled by capital gains (both realized and unrealized).

A number of methodological issues were addressed in our analysis. For a full description of the methodology used, see the 1997 Report.

Comparable profitability data are provided for the Property / Casualty Insurance industry as a whole, for years 1988 through 1997, in Exhibit 1. Although 1998 MPCCI results were available, comparable industry results for 1998 had not been published at the time that this report was prepared.

- For the Property / Casualty Insurance industry as a whole, net underwriting income was consistently negative over the entire period. This is largely because many of the casualty longer tailed lines of business are priced to an underwriting loss in anticipation of significant investment income. Although their overall underwriting results were negative, the industry experienced a generally improving trend in underwriting since 1994, with 1997 being the best year since 1988.
- The significant level of assets under investment by Property / Casualty insurers enables the industry to boost its total return on surplus. Factoring in net investment income and realized and unrealized capital gains, total pretax return on surplus for the 1988-1997 period is 16.6%. Realized and unrealized capital gains accounted for almost one-half of the total return during the period.

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- There is substantial variation in the total pretax income by year. The standard deviation corresponding to the average return of 16.6% is 7.6. Therefore, it is possible to experience good results in one year, with a strong expectation that a future year will produce poor results. In fact, as may be seen in Exhibit 1, the Property / Casualty Insurance industry as a whole had returns in three of the ten years from 1988-1997 of less than 7%, while in three of the years, the returns exceeded 20%.

The improved rate of return on the MPCCI line of business should not be viewed as permanent. The MPCCI line remains subject to the random effects of catastrophic losses. Of the past 20 years, 4 have been "catastrophic" from both a disaster and an insurance perspective. The last such catastrophic year occurred in 1993, when MPCCI companies loss 15% of their capital.

The changes implemented in the 1998 SRA significantly increase the MPCCI companies' risk of loss. The 1988 SRA had applied in 1998, assuming 1998 loss ratios at the level experienced during the 1988 year and prorating the 1988 results, MPCCI companies' losses in 1998 would have amount to \$55 million. In contrast, some experts have suggested that, under the 1998 SRA and assuming 1988 loss ratios, the MPCCI companies' 1998 losses would have exceeded \$450 million, an increase of over 700%.

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EXHIBIT 1

Profitability of the Property / Casualty Insurance Industry
(in millions)

Calendar Year	Net Underwriting Income	Underwriting Income/ Surplus	Net Investment Income	Realized Capital Gain/Loss	Unrealized Capital Gain/Loss	Total Pretax Income	Surplus	Total Pretax Income/ Surplus
1988	(11,662)	-9.8%	27,758	2,691	2,855	21,642	118,578	18.3%
1989	(20,769)	-16.4%	31,094	4,636	8,234	23,195	126,799	18.3%
1990	(21,688)	-15.8%	32,798	2,783	-5,021	8,872	136,906	6.5%
1991	(19,990)	-13.4%	34,032	4,774	13,495	32,311	148,909	21.7%
1992	(36,074)	-22.3%	33,618	9,874	142	7,560	161,485	4.7%
1993	(18,010)	-10.4%	32,740	10,153	923	25,806	173,972	14.8%
1994	(21,936)	-11.7%	33,668	1,620	-1,899	11,453	188,250	6.1%
1995	(17,375)	-8.2%	36,834	5,997	21,717	47,173	211,250	22.3%
1996	(16,995)	-7.0%	37,930	9,249	13,256	43,440	242,758	17.9%
1997	(6,029)	-2.1%	41,499	10,808	28,985	75,263	281,997	26.7%
10 Yr. Total	(190,528)	-10.6%	341,971	62,585	82,687	296,715	1,790,904	16.6%

NOTE: All figures are before income tax.

Standard Deviation 7.6%

Source: Best's Aggregates and Averages

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THE 1998 SRA

A new SRA was negotiated for the 1998 reinsurance year. This new contract contained several features that had an impact on the financial results of the MPCCI Companies.

At the time that the PwC report was written in 1997 the SRA in effect at the time contained a cap. Any underwriting gains in excess of the cap (15% of retained premium) were retained by the FCIC, and placed in what amounted to a stabilization reserve (“reserve amounts”). In future years, if the program ran a deficit, the stabilization reserve would be released to the extent necessary to maintain underwriting gains at 15% of net premium. With the program generating gains after 1993, the prospect of companies receiving a payment from the reserve seemed remote and in our original analysis, underwriting gains were limited to the lesser of actual gains or 15% of net premium.

In 1997, the SRA was renegotiated to allow companies to retain more of their underwriting gains, in return for increasing their share of underwriting losses. The following changes related to payment of gains were implemented:

- All reserve amounts for the 1994 year were paid out in full in October 1997.
- All reserve amounts for the 1995 year were paid in full in July 1998.
- New terms were negotiated for years 1998 and forward. The cap at 15% was raised to 17.5%, and companies were able to retain 40% of the excess over 17.5% in recognition of the fact that they paid tax on the full amount of underwriting gains, not the capped amount. In the future, amounts over the cap will be returned to companies no later than three years after the close of the year (sooner if underwriting gains under the program are less than 17.5%).
- Other years (1996 and 1997) were re-calculated on the new terms and the difference between the old and new terms was refunded.

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Implications for the PwC study

Because of the change to the SRA, we have changed our previous practice of recognizing only the capped amount of underwriting gains, and instead, we recognize the full amount of underwriting gains arising in a specific crop year. However, because the gain amount in excess of the cap will not be recovered by the company for three years, a discount is appropriate to recognize the deferral of a portion of the underwriting income. We apply a 15% discount, to the difference between total underwriting gains and the capped amount. The 15% discount is an estimate of the cost of capital to the MPCCI companies. (Our most recent studies show that, over the 10-year period 1988-97, total returns for the property casualty insurance industry amounted to 16.6%)

In addition, we have recognized the payments made to the companies in October 1997 (balance of amounts reserved in the 1994 year) and 1998 (amounts reserved in the 1995 year). We did not survey the MPCCI companies for the actual amount of the reimbursement from FCIC, but have estimated the reimbursement as the difference between the capped and uncapped amounts of underwriting gains for the relevant year.

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EXHIBIT 2

Multiple Peril Crop Insurance Program* - 1999 Update
(in millions)

Calendar Year	Net Expense Gain/(Loss)	Net Underwriting Gain/(Loss)	Prior Year Adjustments**	Net Underwriting Income	Underwriting Income/Surplus	Net Investment Income #	Realized Capital Gain/Loss #	Unrealized Capital	Total Pretax Income	Average Surplus	Total Pretax Income/Surplus
1988	(3.1)	(5.5)	0.0	(8.6)	-5.4%	10.1	0.0	0.0	1.5	158.2	0.9%
1989	1.9	21.7	0.0	23.6	9.5%	16.9	0.0	0.0	40.5	249.4	16.2%
1990	(7.3)	35.3	0.0	28.0	7.7%	24.1	0.0	0.0	52.1	364.7	14.3%
1991	(17.9)	28.3	0.0	10.4	2.7%	25.0	0.0	0.0	35.4	390.1	9.1%
1992	(3.7)	13.3	0.0	9.6	2.4%	24.0	0.0	0.0	33.6	403.2	8.3%
1993	(9.7)	(58.0)	0.0	(67.8)	-15.4%	24.2	0.0	0.0	-43.6	439.6	-9.9%
1994	(0.6)	74.2	0.0	73.6	13.8%	28.6	0.0	0.0	102.2	532.4	19.2%
1995	22.5	95.1	0.0	117.7	16.0%	40.6	0.0	0.0	158.3	735.2	21.5%
1996	(1.4)	183.2	0.0	181.8	16.8%	57.8	0.0	0.0	239.6	1,084.5	22.1%
1997	(47.8)	257.0	21.9	231.1	17.4%	72.8	0.0	0.0	303.9	1,327.8	22.9%
1998	(88.4)	210.3	9.8	131.8	8.5%	85.0	0.0	0.0	216.8	1,545.2	14.0%
11 Yr. Total	(155.5)	855.1	31.7	731.2	10.1%	409.0	0.0	0.0	1140.3	7,230.2	15.8%
										Standard Deviation	10.1%

* Sample of MPCl retained experience as collected from 9 companies audited by GAO

** Prior year adjustments represent the payment of the reserves under the 1998 SRA.

Figures represent estimates

NOTE: All figures are before income tax.

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RESULTS

As a result of this analysis, we have determined that total pretax income as a ratio to surplus for the reinsured MPCCI companies was 15.8% for the study period 1988-98. This level is less than the total pretax return on surplus of 16.6% earned in the same period by the Property / Casualty Insurance industry as a whole.

As was the case with the Property / Casualty Insurance industry results, there is substantial variation in the results from one year to the next. In fact, the MPCCI results show even more volatility. While the average total pretax income ratio to surplus was 15.8%, the standard deviation was 10.1. (Recall that the average industry return was 16.6 % with a standard deviation of 7.6, with MPCCI exhibiting approximately one-third more variation than the industry.) This variation in MPCCI returns demonstrates inherently greater risk in the MPCCI line, and would require an analysis to consider a much longer experience period in order to draw any firm conclusions about the profitability of the line.

A snapshot of profitability in a limited window of time may distort the long-term profitability of this volatile business. Reinsured companies made underwriting gains in nine out of eleven years. The losses made in the remaining two years were enough to override the gains made in more than four of the nine years. Using a two-year period can certainly not be used as a representative measure of profitability of the business.

V. PROGRAM EXPENSES

KEY POINTS:

MPCI companies consistently showed significantly lower total expense ratios than the Property/Casualty Insurance industry for the 1988-1998 period. The difference has increased since 1993, as the MPCI industry's ratios have declined.

The MPCI industry shows declining expense ratios between 1991 and 1995. Since 1995, the industry's expense ratio has been relatively constant. Initial observation suggests that this percentage has been driven as low as it can be, without significant re-engineering to the way services are provided.

The MPCI industry commission expense ratios are consistent with, or lower than, those of the Property/Casualty Insurance Industry. The Property/Casualty Insurance industry's ratios have trended upwards in the last five years while those of the MPCI industry have trended downwards.

Where direct comparisons can be drawn with other delivery systems, private sector MPCI delivery is less costly, as we demonstrated in our 1997 study.

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CHANGES IN THE PROGRAM

The 1995 program year marked a high watermark for the MPCCI companies. Beginning with the 1996 year, expense reimbursement has consistently failed to match incurred expenses. The gap between incurred expenses and reimbursement continues to widen, to the point where, in 1998, the industry as a whole lost \$100 million due to this factor alone. Although there was a significant downward trend in MPCCI program expenses incurred as a percentage of risk premium between 1988 (35.3%) and 1995 (28.6%), in the last three years this percentage has stayed level (varying between 28.9% in 1996 and 29.6% in 1997). Initial observation suggests that this percentage has been driven as low as it can be, without significant re-engineering to the way services are provided. Approximately one-half of the total administrative expense is commission payments to agents and brokers, which, because they vary with premium, provide a floor to the expense ratio. As with total expenses, the commission percentage of the risk premium has also shown little variation in the last five years, averaging about 16.0% per year.

INDUSTRY BENCHMARKS

An insurer's expense ratio is a measure of total administrative expenses divided by total written premium for a given line of business. Total administrative expenses include loss adjustment expense, commissions and other expenses incurred while selling and servicing the business.

The graph on page 22 shows total expense ratios for years 1988 through 1997 for an aggregate of selected property lines in the Property / Casualty industry as well as the Property / Casualty industry as a whole. (At the time that the updated analysis was performed, 1998 results for the Property/Casualty insurance industry had not yet been published.) Expense ratios for the MPCCI line are also reflected in the graph. Property lines may be thought of as "retail" because they involve servicing of individual policyholders, as opposed to "wholesale" – those lines that involve servicing commercial risks. These lines are labeled "retail" in the graph.

In order to make a comparison of MPCCI expense ratios to the Property / Casualty industry, we needed to adjust premium for the Property / Casualty industry to a basis comparable to the MPCCI program. MPCCI premium contains loss content only. Thus, we reduced the Property / Casualty

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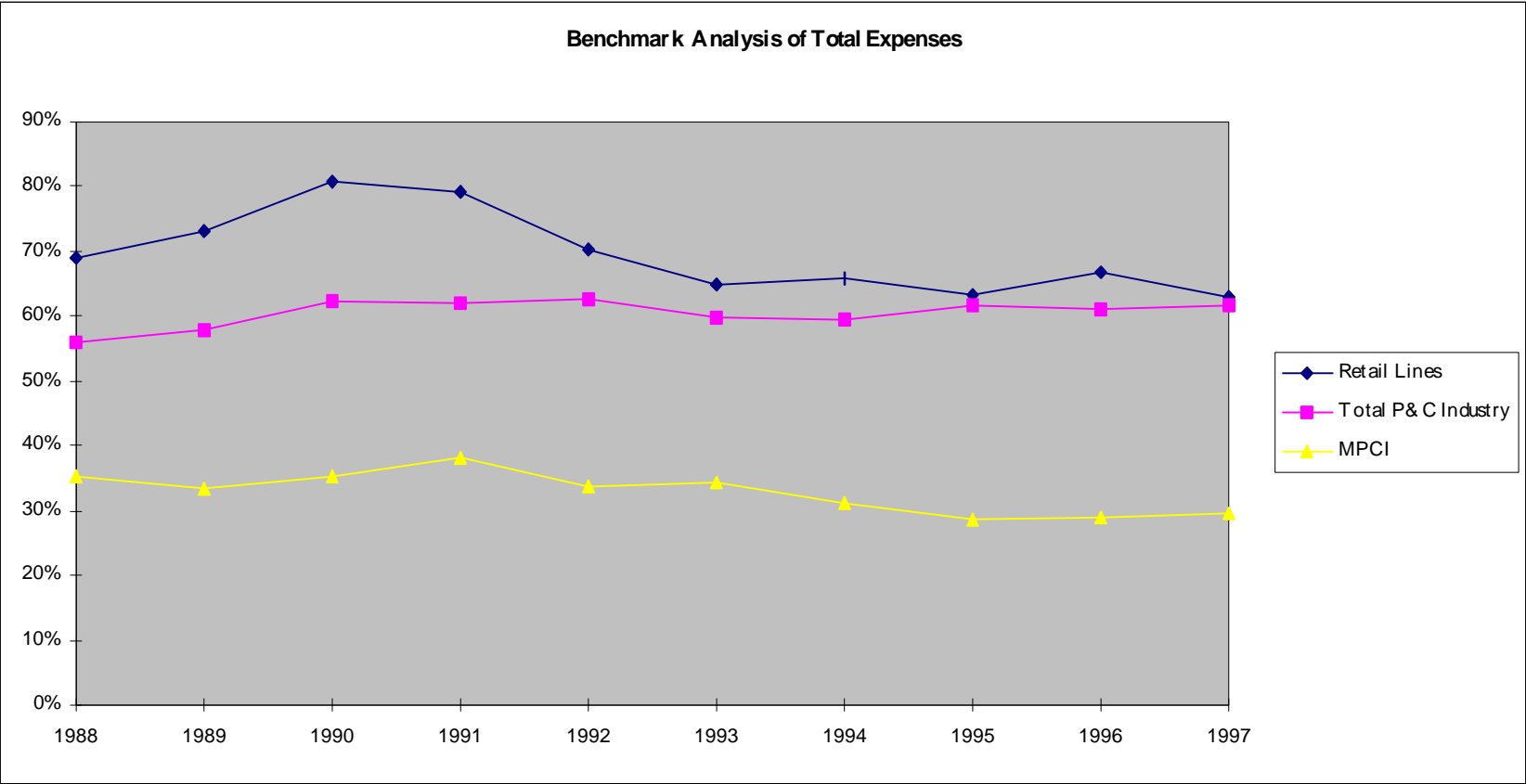
industry premium by expenses, leaving only loss content. Expense ratios for the industry were calculated from these adjusted figures.

Exhibit 3 demonstrates two key points.

1. MPCCI companies consistently show lower total expense ratios than the Property / Casualty industry for the 1988-1997 period. Expense ratios for the “retail” lines are generally higher than those of the Property / Casualty industry as a whole.
2. MPCCI expense ratios have come down over the eleven-year period, similar to the trend of the retail lines. The reduction in expenses shows efficiencies achieved by MPCCI reinsured companies.

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EXHIBIT 3



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Exhibit 4 provides greater breakdown of the total expenses by class of expense: loss adjustment expense, commissions, and other expenses for the 1988-1998 period. Reinsured MPCCI companies show lower expense ratios in all classes of expense. In the case of loss adjustment expense, the ratios may be affected by the absence of significant catastrophes over the expense period.

EXHIBIT 4

**Expense Analysis for Comparable Lines of Business
Direct Results**

Retail	CY	Loss	Commission	Other	Total
		Adjustment Expense		Expense	Expense
	1988	14.9%	29.0%	25.0%	68.9%
	1989	16.9%	29.6%	26.7%	73.2%
	1990	21.3%	30.6%	28.9%	80.9%
	1991	20.7%	29.6%	28.7%	79.1%
	1992	17.3%	27.4%	25.7%	70.4%
	1993	14.0%	25.4%	25.3%	64.7%
	1994	16.4%	25.0%	24.4%	65.8%
	1995	14.8%	24.3%	24.2%	63.3%
	1996	16.1%	24.6%	26.2%	66.8%
	1997	14.0%	24.1%	24.8%	62.9%

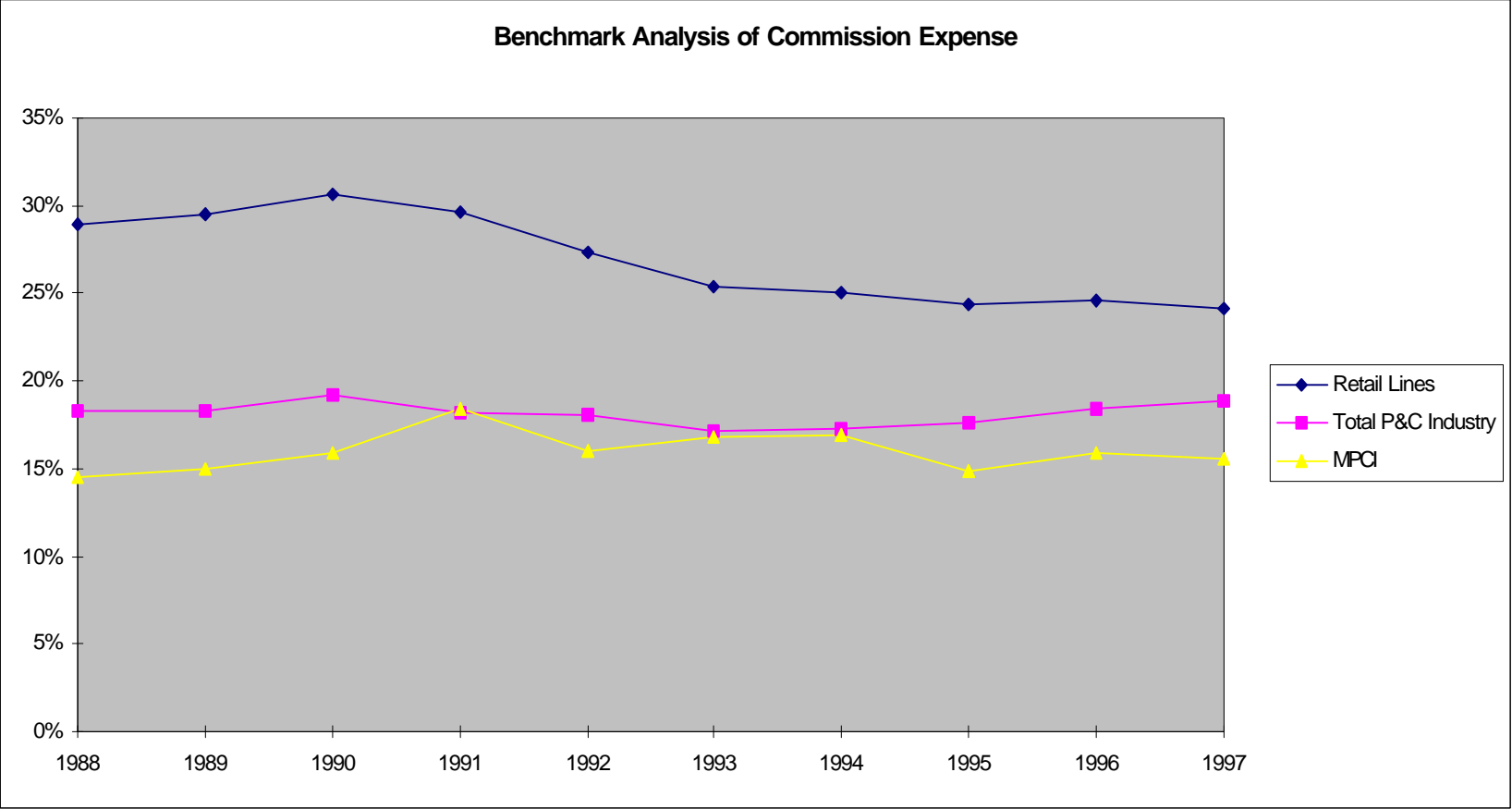
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	CY	Loss Adjustment Expense	Commission	Other Expense	Total Expense
Total P & C Industry	1988	17.1%	18.3%	20.5%	55.9%
	1989	18.0%	18.3%	21.6%	57.9%
	1990	20.1%	19.3%	22.9%	62.3%
	1991	20.6%	18.2%	23.1%	61.9%
	1992	21.7%	18.1%	22.8%	62.6%
	1993	20.0%	17.1%	22.7%	59.9%
	1994	20.1%	17.3%	22.3%	59.6%
	1995	20.8%	17.6%	23.1%	61.6%
	1996	19.9%	18.4%	22.6%	60.9%
	1997	19.4%	18.9%	23.3%	61.7%
MPCI - Reinsured Cos.	1988	7.6%	14.5%	13.1%	35.3%
	1989	6.8%	15.0%	11.7%	33.5%
	1990	7.4%	15.9%	12.1%	35.4%
	1991	6.3%	18.4%	13.5%	38.2%
	1992	4.2%	16.0%	13.6%	33.8%
	1993	5.4%	16.8%	12.0%	34.2%
	1994	3.9%	17.0%	10.3%	31.1%
	1995	3.9%	14.9%	9.8%	28.6%
	1996	3.6%	15.9%	9.4%	28.9%
	1997	3.4%	15.6%	10.6%	29.7%
1998	3.7%	16.6%	9.2%	29.5%	

**FEDERAL CROP INSURANCE PROGRAM
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For MPCl, commission expense represents approximately one-half of the total expenses. The graph below shows a comparison of commission expenses for the retail lines, Property / Casualty Insurance industry, and MPCl reinsured companies.

EXHIBIT 5



**FEDERAL CROP INSURANCE PROGRAM
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MPCI commissions are lower than the retail lines and comparable to those of the Property / Casualty Insurance industry as a whole. The fact that MPCI commissions are lower than those paid on comparable “retail” lines suggests that the distribution system is not being over-compensated.