



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

1400 Independence
Avenue, SW
Washington, D.C.
20250-0801

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Ross J. Davidson, Jr.
Manager

SUBJECT: Board Memorandum No. 780
Docket No. CI-Income Protection Extension-04-01
Continuation of Income Protection Crop Insurance Pilot Programs

There is submitted for your consideration the subject docket, which if approved would authorize the Federal Crop Insurance Corporation (FCIC) to continue to offer the Income Protection (IP) Crop Insurance Program on a pilot program basis until the RMA has an alternative revenue product available where the pilot program is currently offered.

In December 1995, the FCIC Board of Directors approved the IP program for corn, cotton, and spring wheat in selected counties. The initial pilot program included counties with homogenous risk and monocultural crop practices. The IP program was expanded to additional States and counties and additional crops (barley, grain sorghum, and soybeans) over the next three years to gradually add complexity to the pilot program and to determine the usefulness of IP in a large scale application.

The IP pilot program provides protection against a loss of revenue due to lost production and/or low price. Indemnities are due when any combination of yield and/or price results in revenue that is less than the revenue guarantee. IP uses most of the policy terms and conditions, and procedures of the Actual Production History (APH) plan of insurance.

The pricing component uses the commodity futures market for price discovery. Price discovery occurs twice. It occurs before the insurance period, to establish the revenue guarantee, and then again at harvest to value production to count in determining indemnities. The cost of IP is generally a little less than the current APH coverage. This, in part, is due to IP being available on an enterprise unit basis only.

The IP pilot program had approximately 9,000 policies earning premium for the 2004 crop year. The participation in the IP program varies by commodity. IP cotton and grain sorghum had minimal policies earning premium each year of the pilot program (approximately 100 policies or less). Barley, corn, soybeans, and wheat participation ranged from approximately 1,000 to 5,000 policies in most years of the pilot program. For the 2004 crop year approximately 9,000 policies were sold with a liability of \$230 million.

The overall IP loss ratio for all commodities from 1996 through 2004 is 1.19 (total

indemnity divided by total premium).

RMA currently has two other revenue products, Crop Revenue Coverage (CRC) and Revenue Assurance (RA)) that provide revenue coverage for the same commodities as IP. Work is underway by RMA to combine the three revenue products into a single product. The IP evaluation completed in September 2003 found no major issues with the IP product, but recommended a number of improvements. These are being considered as the revenue products are combined.

For FCIC to continue offering insurance for the income protection pilot programs discussed beyond the 2004 crop year, it is necessary for the Board to approve Docket No. CI-Income Protection Extension-04-01.

FINAL RESOLUTION

RESOLVED, That Docket No. CI-Income Protection Extension-04-01, Exhibit No. 2764, authorizing the Federal Crop Insurance Corporation to continue to offer the Income Protection pilot program for the 2005 and subsequent crop years until such a time that the Board takes further action on this pilot program, is hereby approved, AND BE IT FURTHER RESOLVED, That the Board delegates authority to the Manager to make such policy and procedural changes as are necessary to make the policy legally sufficient.

Adopted by the Board of Directors on: 10/28/04

/signed/
Vondie O'Conner, Deputy Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/signed/
Keith Collins
Chairman of the Board

11/02/04
Date