



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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DATE: February 7, 2013
TO: Board of Directors
Federal Crop Insurance Corporation
FROM: Brandon C. Willis /signed/
Manager
SUBJECT: Manager's Report
Exhibit No. 4122

This document is the Manager's Report to the Federal Crop Insurance Corporation Board of Directors meeting on February 7, 2013.

2011 and 2012 Indemnities: As of January 28, the Federal crop insurance program has paid out over \$10.8 billion in indemnity for 2011 and \$13 billion for 2012. Roughly 88 percent of the 2012 losses can be attributed to the devastating drought challenging the country.

New and Revised Products

Downed Rice Endorsement: RMA, in cooperation with AgriLogic Consulting, LLC, released materials for the Downed Rice Endorsement (DRE) for the 2013 crop year. The DRE provides coverage to rice growers for the extra harvest expense incurred when rice falls over to a height of six inches or less due to wind or rain. The DRE is a privately developed product, authorized under the authority of section 508(h) of the Federal Crop Insurance Act, and is owned by AgriLogic Consulting, LLC.

Trend Adjustments: For the 2012 crop year, a trend adjustment procedure for actual production history (APH) yields was made available for corn and soybeans in specific states and counties. For 2013, trend adjustments will be expanded to additional counties for corn and soybeans and will also be expanded to wheat, canola, cotton, grain sorghum and rice in certain locations. The trend adjustment was a privately developed product and was submitted to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) by the Illinois Corn Marketing Board and integrated Financial Analytics and Research group under section 508(h) of the Federal Crop Insurance Act (Act).

Underwriting Capacity

Livestock Gross Margin for Dairy Cattle (LGM-Dairy): For the 2013 Fiscal Year, RMA allocated \$14.9 million of underwriting capacity for LGM-Dairy. The first sales period was October 26, 2012 and a total of four sales periods have occurred since the beginning of the fiscal year. Over these four sales periods, \$7,144,590 in underwriting capacity has been used for LGM-Dairy. Section 523(b)(10) of the Act limits the amount that can be expended on livestock insurance plans to \$20 million (premium subsidy and administrative and operating subsidy) per fiscal year. The remaining funds have been allocated to the other livestock programs.



Research/Contracts and Studies

Pomegranate Feasibility Study: A contract was recently awarded for the Pomegranate Feasibility Study. The purpose of this contract is to gather research regarding pomegranates for consideration of the development of a crop insurance program in the future. The contractor has scheduled listening sessions and a report is due in March.

Tart Cherries Insurance Program Development: The contract is underway for the development of a tart cherries crop insurance program. The contractor held listening sessions with growers and submitted a data collection report that recommends proceeding with an actual revenue history (ARH) insurance plan. A draft submission package is due in March.

Hybrid Sweet Corn Seed Insurance Program Development: RMA has initiated work to develop an insurance product for hybrid sweet corn seed growers in the Pacific Northwest. A statement of work has been prepared and sent to the contracting officer. The solicitation will be open to bidders for about 4 weeks and an award is expected shortly thereafter.

Limited Irrigation Research Study: RMA issued a solicitation for a contract to conduct research and analysis regarding irrigation policy for potential crop insurance program development. This effort will involve several phases accomplished via task orders issued under the contract. The contract was awarded to Watts and Associates on January 23, and the kick-off meeting was held on January 28. The first deliverable is due on February 25.

Actuarial Review Contract: RMA recently issued a solicitation for a general contract to consider several program aspects including:

- A review of area-based crop insurance program concepts and data usage;
- A review of actual yield determinations in the presence of insufficient data;
- A study of loss-ratio-based rate adjustments;
- A review of the methodology for determining price volatility factors; and
- A review of organic price factor methodologies.

The solicitation closes February 4.

Nursery Plant List Maintenance Contract: RMA issued a solicitation for a new contract for the maintenance of the Nursery Eligible Plant List and Plant Price Schedule and associated software for the 2015 through 2019 crop years. The solicitation closed on January 8, and should be awarded soon.

Data and Computer Applications

ACRSI: The Acreage and Crop Reporting Streamlining Initiative (ACRSI) project has been progressing as RMA continues to work with the Farm Service Agency (FSA), the Natural Resources Conservation Service, and the National Agriculture Statistics Service to develop one-stop acreage reporting for producers across these USDA programs. For the 2013 crop year:

- 1) Location identifiers have been aligned to ANSI standards;
- 2) Acreage reporting dates have been consolidated;

- 3) Common entity types have been partially implemented; and
- 4) Acreage reporting using Common Land Units has begun.

Work will continue between the agencies to consolidate the remainder of the entity types, to determine a list of commodities that is common between agencies, and to provide for full reporting of data by Common Land Unit.

Regulations:

Final Rules

Area Risk Protection Insurance Plan (ARPI): The final rule is being prepared for publication and will combine the area-based insurance plans (Group Risk Plan, Group Risk Income Plan and Group Risk Income Plan Harvest Revenue option) into one policy offering both yield and revenue coverage on an area basis. The new policy is expected to be in place for the 2014 crop year.

Florida Citrus: The final rule was published in the *Federal Register* December 21, 2012. The changes add provisions to align the Florida Citrus Fruit Crop Provisions with other perennial crop provisions starting with the 2014 crop years.

Pecan Revenue: The final rule is pending publication and will amend the Pecan Revenue Crop Insurance Provisions to:

- Clarify and strengthen existing policy provisions,
- Add provisions to improve the integrity of the program,
- Add provisions that benefit policyholders, and
- Remove provisions that are no longer necessary.

The new policy is expected to be in place starting with the 2014 crop years.

Processing Sweet Corn: The final rule is pending publication and will amend the Processing Sweet Corn Provisions to use the base contract price as the price election. This should allow producers the ability to establish a more accurate insurance guarantee that reflects the producer's expected market price for processing sweet corn. The new policy is expected to be in place for the 2014 crop year.

Proposed Rules

Forage Seed: The proposed rule is being prepared for publication and proposes to make the Forage Seed Pilot program into a permanent program. The Forage Seed Crop Provisions provide insurance protection for forage seed that is contracted or grown as certified forage seed.

Insurance Services Update

The St. Paul Regional Office (RO) received a request in December 2012 to insure edamame soybeans under the canning and processing provisions. While researching this it was discovered that edamame has not been handled consistently by the Approved Insurance Providers (AIPs), and in some cases has been insured under the Coarse Grains Crop Provisions. Edamame is harvested green in the pods or shelled green and is not

insurable under the Coarse Grains Crop Provisions which stipulates they must be planted for harvest as beans for grain. Product Management is working on insuring them under the Processing Beans Crop Provisions.

Prevented Planting and Final Planting Dates

As part of our FSA Consultations, the St. Paul RO submitted actuarial changes to FSA offices in Minnesota, Iowa and Wisconsin in November, 2012 for the 2013 changes. FSA offices were also invited to participate in the St. Paul Region Actuarial Update Webinar held November 28, 2012.

The Valdosta RO responded to an inquiry regarding requested revisions to fresh market sweet corn replant payment amounts and policy-provision, production-to-count grade standards. The Valdosta RO is reviewing the replant payments before the April 30, filing date.

Drought Conditions, Deep Freeze, and Large Claims

The Missouri River Flood Task Force held its first teleconference of the 2013 season to provide a status report of conditions in the Missouri River watershed. At this time, flood risk from snow pack is forecast as below normal at 40 percent of the way through the snow season. Flood risk due to rainfall is forecast as normal. Water releases from reservoirs in the Dakotas are about normal for this time of year. One planned change for this season is that there will be no spring pulses.

The Spokane RO reports there is a possibility of grape damage in Idaho's Treasure Valley in southwestern Idaho. A deep freeze that has persisted in the Treasure Valley for most of January has grape growers and wineries concerned about the impact to plants. Temperatures have been as much as 25 degrees below normal for the past 3 weeks and dipped to minus 4 degrees the past 3 days in Caldwell, in the heart of Idaho's wine country. According to the National Weather Service, the average temperature for the month is on track to make this January the fifth coldest on record dating back to 1865.

The drought situation continues to drastically affect surface and ground water irrigation water supplies in New Mexico, Oklahoma, and Texas. Producers are at or reaching the spring planting dates for crops with a November 30 filing. According to Section 9 (Insurable Acreage) of the Basic Provisions, producers must determine if they have adequate water available at the time insurance attaches. In many areas throughout the region, producers face this decision because of reduced surface water irrigation reserves. Reduction in ground water supplies are due to non-replenishment of the aquifers, drought, and overuse.

Crop Expansion

On November 14, the Davis RO participated in an Agriculture Leaders Meeting in Salt Lake City, UT by video conference. The Utah FSA hosted the meeting and included the participation of the Farm Bureau, the FSA State Committee, and producers. The purpose of the meeting was to discuss USDA programs and regional agriculture issues. As a result

of the meeting the Davis RO has submitted a request to expand the alfalfa seed program into one additional county in Utah.

The Davis RO has submitted several requests to increase crop insurance availability in California, Arizona, and Utah. Submissions include:

- Barley in one Arizona county,
- Alfalfa Seed in one Utah county,
- Onions in three Arizona counties, and
- Onions in six California counties.

If approved, the changes would be effective for the 2014 crop year.

On November 15, the Davis RO attended the Tart Cherry Crop Insurance Listening Session in Payson Utah. Agrlytica, the contractor commissioned to conduct the feasibility study hosted the meeting. The purpose of the meeting was to review the feasibility of developing a pilot insurance program for tart cherries.

On January 17, the Davis RO attended a listening session for the ARH Avocado Pilot Program in Fresno, California, hosted by the RMA contractor, Agralytica. The purpose of the session was to evaluate if the pilot program should be converted into a permanent program, expanded to other areas, modified, continued as a pilot, or terminated.

In an effort to improve participation in the Actual Revenue History Strawberry Program, the Davis RO has submitted a request to move the sales closing date for winter planted strawberries. The date would move from July 1 to September 30 to better align the sales closing date with the period when growers typically make risk and financial management decisions. The Davis RO has consulted with both the California Strawberry Commission and the Western Grower Association. They both support the change. If approved, the change will be in effect for the 2014 reinsurance year.

The Valdosta RO has been asked to review new proposed production reporting dates that will affect Area Revenue Protection Insurance and the Common Crop Insurance Provisions for corn, cotton, grain sorghum, soybeans, peanuts, and wheat. Preliminary analysis of the proposed dates indicates that these dates are too early and need further review and discussion.

Program Compliance

Final Findings Issued Since the September 2012 Board Meeting

Since the September 2012 Board meeting Compliance has issued final findings to reinsured companies for:

- Premium overstatements of \$1,351,415;
- Indemnity overpayments of \$1,616,605;
- Premium understatements of \$135,475; and
- Indemnity underpayments of \$124,618.

Compliance also reported \$269,562 in indemnity cost avoidance and a \$170,000 civil settlement from a South Dakota nursery.

2012 Drought Monitoring

To ensure timely servicing of policyholders during the expected high volume of drought-related claims for 2012, Compliance monitored the number of claims processed on a weekly basis throughout the harvest season. Earlier in the year, RMA agreed to use the same standard used in 2011 for determining when the number of \$200,000 claims in a state was sufficient to trigger data mining relief for reviewing any remaining claims. RMA also modified the threshold for the 2012 high-dollar reviews from \$100,000 to \$200,000 in recognition of the increases in the cost of farming and crop value over time. As of January 22, AIPs had processed 7,340 claims exceeding \$200,000 and no state had sufficient percentage of claims to trigger review relief. Nationally, these high dollar claims represented only 1.58 percent of all claims processed for the 2012 crop year. By this time last year, companies had processed more than double the number of claims exceeding the \$100,000 threshold and those claims represented 4.15 percent of the claims processed for the 2011 crop year. At this point, Compliance does not anticipate providing any review relief for 2012 high dollar reviews.

National Program Operations Review (NPOR)

The regional Compliance Offices are finishing up writing final findings and reports for the 2011 crop year NPOR reviews. RMA has developed a process to keep policyholder data available for other Federal program and agency use when company actions cause the crop insurance contract to be ineligible for reinsurance. Crop insurance data is increasingly important for administering other farm programs.

The selected Companies for the 2011 crop year were:

- CRCO- Occidental Fire and Casualty (Agrilogic - OX)
- ERCO- XL Reinsurance (Heartland - GI)
- MRCO- Country Mutual (CM)
- NRCO- Prevented Planting
- SRCO- Rural Community Insurance Services (EF)
- WRCO- American Agricultural Insurance Company (FA)

Supplemental Revenue Assistance Program (SURE) Referrals

For the week ending February 1, the regional Compliance Offices had received 7,376 SURE referrals from FSA or about 300 more than was reported to the Board last September. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance is currently receiving referrals for the 2008, 2009, 2010, and 2011 crop years from FSA.

New Producer Audit and Review

OIG conducted an audit on the use of the "new producer" designation in establishing insurance guarantees and found evidence suggesting that the designation was being abused. Compliance agreed to conduct a review of the 2009 and 2010 guarantees to determine if the designation appeared to be misapplied. The Center for Agribusiness Excellence (CAE) identified several thousand policies with APH certifications that incorrectly used the new producer designation and were indemnified for 1 of the years

under review. Recent changes to the regulations allow RMA to use both RMA and FSA data for compliance purposes. The policies identified were sent to each of the respective companies with instructions to correct any errors. As soon as these years are reviewed and corrected, a similar exercise will be conducted for 2011 and 2012. CAE developed a program to identify if policyholders qualify as a new producer or not using available RMA and FSA historical records. Compliance is making the program available for companies to validate policies before submitting them to RMA for reinsurance.

Tobacco Program Abuse

The U.S. Attorney for the Eastern District of North Carolina had several additional successful prosecutions of persons abusing the crop insurance program in the past few months. Compliance is providing investigative support to OIG and continues to revoke program eligibility using debarment or disqualification for persons found to have committed offenses warranting their exclusion from program participation. Similar efforts are ongoing in other tobacco producing states.