Standard Reinsurance Agreement Second Draft Fact Sheet

Since the release of the first SRA draft in December, RMA has carefully considered comments and recommendations from all Approved Insurance Providers (AIPs) and others. The second SRA draft incorporates many suggestions derived from these comments, while complying with the 2008 Farm Bill's directive to effectively address the significant rise in Government expenditures and ensure the continued strength of the Federal crop insurance delivery system. As a result, the new SRA will continue to serve as a solid foundation for the effective delivery of Federal crop insurance, but will do so in a prudent, cost effective, and sustainable manner for farmers, private insurance providers, and taxpayers.

Administrative and Operating (A&O) Subsidies

As with the first draft, the second draft provides companies with relatively stable A&O subsidies per policy for seven major commodities and will facilitate insurance company planning. RMA has noted company concerns and responded by adopting the following major changes

- Incorporate a two year transition period for companies to fully adjust to the new A&O subsidy structure. During the transition the reference price will be 10 percent higher in 2011 and then 5 percent higher in 2012 until base references prices are reached for 2013.
- Provide for 5 percent higher reference prices for less-served states (state groups 2 and 3).
- Limit companies' initial commitments for acquisition costs (agent commissions) to 80 percent of A&O per policy, but companies will be allowed to use profit sharing above this limit. Base agent commissions have been driven up in recent years, and several companies have advised this provision would ensure financial solvency into the future.

Risk Sharing Terms

The second SRA draft preserves RMA's rebalancing efforts to equalize expected returns throughout the different states, in order to more effectively reach under-served producers, commodities and areas. Insurance companies generally supported this effort but with modifications adopted as follows:

- Each AIP has one Residual Fund nationwide, instead of the fund being shared nationally across all AIPs—addressing major company concern that they would be held accountable for other AIPs policies.
- Number of State Groups has been decreased from 4 to 3 for simplification. A separate group (Group 3) has been established for underserved or less-served States.
- Group 1 represents the 5 states with currently the highest levels of expected return, which under the first draft SRA were restructured to be less profitable. In the 2nd SRA draft, the Commercial Fund terms are revised to be more generous in terms of profit potential, as companies indicated they desired more risk in return for more profit potential. The other 45 states (Groups 2 and 3) will receive improved reinsurance terms compared to the current SRA.
- Net Book Quota Share will decrease from the proposed 10 percent in the first draft to 7.5 percent, with 2.5 percentage points to be distributed to those that sell and service policyholders in 17 underserved/less-served States (Group 3 States).