United States Department of Agriculture

Risk Management Agency

Update on Program & SRA

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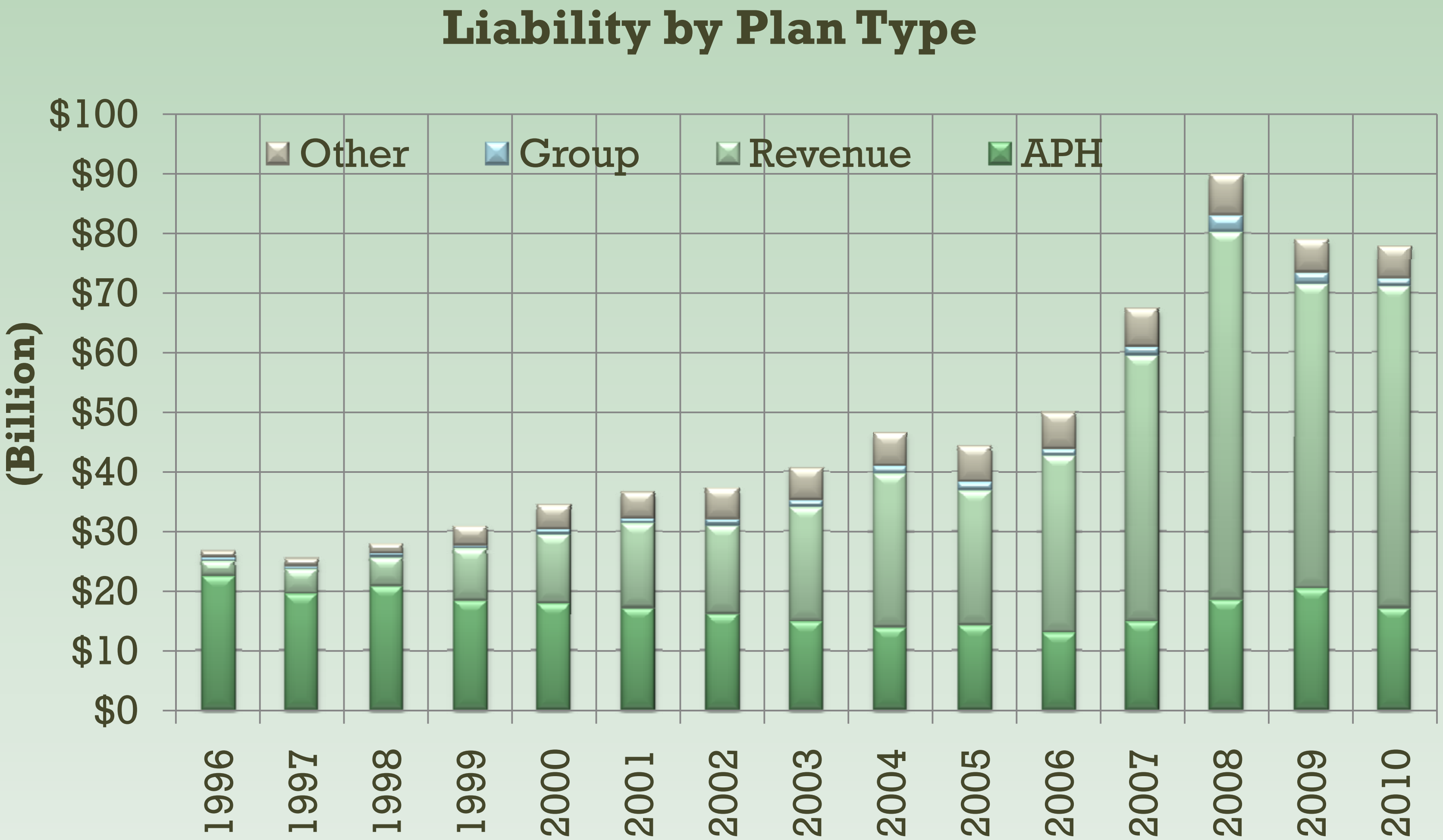
2010 National Business Summary

Federal Crop Insurance Program

Liability	$78 Billion
Acres Insured	256 Million
Total Premium	$7.6 Billion
Indemnity (Claims Paid So Far)	$3.4 Billion
Loss Ratio CY 2009	.45

Program Growth:
Participation by Insurance Plan



As of 1-10-11

Liaibility by Plan Type

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
								Billion dollars							
APH	22.56	19.54	20.78	18.42	17.94	17.15	16.13	14.90	13.86	14.17	12.99	14.86	18.55	20.45	17.19
Revenue	2.58	4.19	4.86	8.66	11.53	14.22	14.87	19.18	25.85	22.65	29.82	44.53	61.59	51.01	53.80
Group	0.52	0.41	0.55	0.52	0.82	0.81	0.99	1.14	1.27	1.35	1.05	1.47	2.80	1.92	1.29
Other	1.21	1.31	1.74	3.34	4.16	4.55	5.30	5.40	5.64	6.11	6.03	6.48	6.96	5.59	5.65

Program Growth:
Participation By Crop

2010 Crop Ranking by Value *(as of Jan. 10, 2011)*		
Crop	Crop Liability ($ Mil.)	Percent of Total
Corn	$31,661	40.6%
Soybeans	$17,957	23%
Wheat	$6,416	8.2%
Cotton	$2,852	3.7%
Nursery (FG&C)	$2,795	3.6%
Citrus	$2,124	2.7%
Rice	$1,221	1.6%
Potatoes	$959	1.2%
All Others	$11,947	15.3%
Total	$77,932	100.0%

North Dakota Business Summary Crop Year 2010

(As of Jan. 10, 2011)

	Crop Year 2007	Crop Year 2008	Crop Year 2009	Crop Year 2010
Liability	$3.2 Billion	$5.8 Billion	$4.1 Billion	**$4 Billion**
Acres Insured	$22 Million	$22 Million	$24.2 Million	**$24 Million**
Total Premium	$535 Million	$1.1 Billion	$708 Million	**$663 Million**
Premium Subsidy	$311 Million	$622 Million	$437 Million	**$414 Million**
Claims paid	$303 Million	$848 Million	$390 Million	**$405 Million**
Loss Ratio	.57	.80	.65	**.61**

2010 participation rate for the 10 principal crops in North Dakota: 96.7%

Minnesota Business Summary Crop Year 2010

(As of Jan. 10, 2011)

	Crop Year 2007	Crop Year 2008	Crop Year 2009	Crop Year 2010
Liability	$5.5 Billion	$7.8 Billion	$6.1 Billion	$6.2 Billion
Acres Insured	$16 Million	$16.6 Million	$17 Million	$17 Million
Total Premium	$520 Million	$845 Million	$627 Million	$525 Million
Premium Subsidy	$287 Million	$472 Million	$380 Million	$323 Million
Claims paid	$236 Million	$692 Million	$380 Million	$73 Million
Loss Ratio	.45	.82	.24	.14

2010 participation rate for the 10 principal crops in Minnesota: 92.2 %

Program Update

- Continuing to improve the Federal crop insurance program is a priority for Secretary Vilsack and the Obama Administration

- Some agency accomplishments in the past year:
  - Proposed Rule: Good Performance Refund (GPR)
  - SRA
  - LGM-Dairy
  - Expanded PRF
  - Partnership & Cooperative Agreements
  - Organics improvements
  - COMBO rule

Ongoing Efforts

Program Integrity & Technology

Program Integrity & Technology

- Part of USDA Effort
- Data Mining
- Yield Monitoring
- CIMS
- APH
- Large Claim Review Process
- Good Farming Practice Determination

SRA Renegotiation Objectives

- Maintain producer access to critical risk management tools;
- Align Administrative and Operating (A&O) subsidy closer to actual delivery costs;
- Provide a reasonable rate of return to the companies;
- Protect producers from higher costs while equalizing reinsurance performance across states to more effectively reach underserved producers, commodities, and areas;
- provisions to make the SRA more understandable and transparent; and
- Enhance program integrity.

Agent Compensation Guidance

MGR-10-011 & 10-011.1

Agent Compensation

Background

- Agent compensation is an increasing share of A&O subsidy.
  - Aggressive bidding for agents' books of business.
  - In Corn Belt in 2009, companies spent 109% of A&O on agents.
  - 20% of A&O needed to cover loss adjustment and overhead costs.
  - Companies increasingly dependent on underwriting gains.
  - Generous compensation means increased illegal rebating.
- Company Solvency has become a major concern.
  - "Expense deficit" problem masked recently by an unusual run of favorable underwriting gains.
  - Policyholder surplus requirements intended for producer losses, not to cover large expense deficits.
  - <u>Even one bad underwriting year</u> could doom some companies.
- The new SRA limits agent compensation to address issue.

Agent Compensation

SRA Agent Compensation Limits

- The 80% "Soft Cap"
  - Companies may obligate up to 80% of the A&O subsidy in a State for agent compensation.
  - Payment to agents under the soft cap may be at any time.
- The 100% "Hard Cap"
  - <u>If the company has sufficient national underwriting gains</u>, after considering obligations to commercial reinsurers, it may supplement soft cap compensation to agents with profit sharing, up to 100% of the A&O in a State.
  - Profit sharing portion may be paid only after the AIP has booked the year's underwriting gain.
- What is agent compensation?
  - Issue as to what is or is not compensation to agents is complex, e.g. processing costs.
  - Potential exists for numerous "schemes and devises" to circumvent limits.

Agent Compensation

RMA Guidance to Companies

- In an effort to develop guidance to companies in time for 2011 agent contracts, RMA issued MGR-10-011 on September 13.
- Issues emerged (for instance "benefits under the law") that required revisions.
- MGR-10-011.1 issued on October 29 to revise prior guidance and finalize issue.

Agent Compensation

Compensation:

- Commissions
- Salary
- Profit Sharing
- Bonuses
- Consulting Fees
- Loans (with some exceptions)
- Advance Payments
- Deferred Payments
- Cooperative advertising
- Agent insurance coverage
- Office furnishings, software (other than computer equipment)
- Entertainment and award benefits (>$200 per agent, $600 per agency)

Agent Compensation

NOT Compensation:

- Loans before 6/30/10
- Loans at market terms
- Non-FCIC insurance commission payments
- Training costs
- Nominal-valued promotional items
- Agent meals
- Producer meeting costs
- Company processing and quoting software.
- Benefits for company employees that are required by law . (Concern with DOL rules if extended to independent agents)
- Processing costs (up to 5% of A&O)

Agent Compensation

Processing Allowance

- Agents may be paid up to 5% of A&O for processing, defined as:
  - Providing electronic or hard copies of original insurance documents to company.
  - Keying in insurance information in electronic form.
  - Transmitting information to company.
- Computer hardware provided by company to agents included in processing allowance.

Agent Compensation

Detection and Enforcement of Limits

- Limitation is at the State level, not at the individual agent level.
- The 5% processing and 80% and 100% compensation limits by State will be “locked-down” with the first annual settlement report (October in the year following the end of the reinsurance year).
- Companies will report and certify agent compensation in their annual Plan of Operations.
- RMA will detect potential violations through the National Financial Operational Reviews, conducted by KC, or the National Program Operational Reviews, conducted by Compliance.
- Violations subject to the denial of reinsurance and other sanctions.

Crop Insurance Now, More Than Ever

- Unpredictable weather, heavy losses and market volatility due to high crop prices make risk management critical for producers.

- We will do our part to make sure that Federal crop insurance is a win-win-win-win program for producers, companies and their agents, consumers, and American taxpayers.

Thank You

Michael Alston

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Risk Management Agency