USDA

BULLETIN NO.: MGR-99-005

TO: All Reinsured Companies
          All Risk Management Agency Field Offices
          All Other Interested Parties

FROM: Kenneth D. Ackerman   /s/ Ken Ackerman   2-22-99
          Administrator

SUBJECT: Payment of Rebates, Dividends, and Patronage Refunds

The Risk Management Agency (RMA) has received numerous complaints regarding certain marketing practices involving potential rebates. RMA is in the process of publishing a regulation to govern these practices. Currently, the Standard Reinsurance Agreement specifically prohibits rebates and rebating of any kind.

Payment of rebates, dividends, and patronage refunds, if improperly made, may have an adverse effect on RMA's ability to devise and establish an effective and efficient crop insurance marketplace. An effective and efficient marketplace is necessary to best meet the risk management needs of producers. RMA must also be provided the opportunity to fulfill its responsibility to protect the integrity of the crop insurance program and its participants.

Dividends and patronage refunds are normal business practices for mutual, cooperative, and certain other insurance companies as well as to certain kinds of cooperatives such as insurance-buying groups and certain agricultural lenders. However, if dividends and patronage refunds are guaranteed to potential policyholders in advance, or are made contingent upon the continued purchase of crop insurance policies, or the payments are made only to insureds, such inducements are prohibited rebates.

RMA strongly advises that any marketing activity, as described in this memorandum, which may have the potential to disguise rebating schemes cease and desist immediately until RMA has published its regulations governing such practices.

If you should have any questions, please contact your Reinsurance Services Division account executive.

RMA
Risk Management
For The 21st Century

1400 Independence Avenue, SW Stop 0801

The Risk Management Agency Administers and Oversees

All Programs Authorized Under the Federal Crop Insurance Corporation
An Equal Opportunity Employer