



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

BULLETIN NO.: MGR-02-001

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

FROM: Phyllis W. Honor /s/ Phyllis W. Honor 2-22-02
Acting Administrator

SUBJECT: Written Agreements – 2002 Crop Year

BACKGROUND:

Section 508(a)(4)(B) of the Federal Crop Insurance Act (Act) states:

Where crop insurance is not available for a particular agricultural commodity, the Corporation may offer to enter into a written agreement with an individual producer operating in the area for insurance coverage under this title if the producer has actuarially sound data relating to the production by the producer of the commodity and the data is acceptable to the Corporation.

In addition, crop insurance regulations provide authority to alter the terms of the policy using a written agreement, but only for those policy terms that are specifically designated in the policy provisions.

On December 12, 2001, the Federal Crop Insurance Corporation Board of Directors (Board) passed a resolution to approve Internal Procedures for Approval of Policies, Changes to Policies and Certain Other Actions. These internal procedures provide that written agreements not currently authorized by the policy will require expert review and Board approval.

With respect to such written agreements, it was determined that expert review of each type of written agreement is impractical and that since approval is based on uniform underwriting procedures, the underwriting procedures themselves would undergo expert review and Board approval.



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All Programs Authorized Under the Federal Crop Insurance Corporation

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In the meantime, RMA and its oversight bodies have identified some current problems with written agreements that adversely affect program integrity. One problem identified is the high loss ratio associated with certain written agreements. Section 508(c)(9) of the Act states: “The Board may limit the availability of additional coverage under this subsection in any county or area, or on any farm, on the basis of the insurance risk involved.” Written agreements are intended to provide insurance where it is usually not available in an area, on a crop, practice, type, etc. or to change risk classifications or unit structure. Given the agency’s mandate to operate the program in an actuarially sound manner, written agreements, which are the exception to the rule, should only be approved when the actuarial information suggests that insurance is appropriate under such agreement. Where the loss ratio is excessive for acreage insured under a written agreement, section 508(c)(9) of the Act permitting the agency to deny insurance based on excessive risk is applicable to the approval process.

ACTION:

Determinations of whether the risks are excessive and, therefore, the written agreement should be disapproved should be handled as follows:

1. Written agreements requested for the first time in the 2002 crop year will be reviewed by RMA Regional Offices (ROs) according to the procedures in place for the 2002 crop year. Requests for first time agreements must be reviewed to determine if any acreage for which the written agreement is being requested was previously insured under an approved written agreement issued to another person or entity. If this review discloses that any acreage for which the written agreement is being requested was previously insured under a written agreement approved for another person or entity, the first time request will ONLY be approved if requirements for approval contained in paragraph 2 below are met with respect to the previous written agreement on the acreage.
2. Written agreement requests for the 2002 crop year that have been approved in previous years will be approved if they meet the current underwriting criteria contained in the underwriting procedures unless the crop, unit, or acreage for which the written agreement was in effect had:
 - (a) a minimum of two crop years in which an indemnity was paid; and
 - (b) a cumulative loss ratio of 3.0 or greater for all crop years the written agreement was in effect.
3. Written agreements approved for the 2002 crop year prior to the date of this bulletin will remain in effect.
4. Since the requirements of this bulletin apply to all similarly situated producers, it is considered a matter of general applicability and not subject to appeal to the National Appeals Division (NAD), except as required by 7 C.F.R. § 11.6(a).

5. RMA will submit underwriting criteria for the review and approval of written agreement requests that will be effective for the 2003 and subsequent crop years for expert review and approval by the Board of Directors. Such criteria will include a threshold for adverse loss experience.
6. After the underwriting criteria has been reviewed by outside experts and approved by the Board, it will be available on the RMA website.

This bulletin is effective until December 31, 2002.