



United States of Agriculture  
Farm and Foreign Agriculture Services  
Risk Management Agency

July 30, 2003

**INFORMATIONAL MEMORANDUM: R&D-03-034**

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

**FROM:** Tim B. Witt s/ Rodger M. Matthews, for  
Deputy Administrator

**SUBJECT:** Request For Input Regarding Quality Adjustment Procedure

**BACKGROUND:**

The Agricultural Risk Protection Act of 2000 (ARPA), Section 107 states: “The Corporation shall contract with a qualified person to review the quality loss adjustment procedures of the Corporation so that the procedures more accurately reflect local quality discounts that are applied to agricultural commodities insured under this title. Based on the review, the Corporation shall make adjustments in the procedures, taking into consideration the actuarial soundness of the adjustment and the prevention of fraud, waste, and abuse.”

Risk Management Agency (RMA) contracted for the review of the quality adjustment procedure as required by ARPA. The contractor was required to recommend changes to the quality adjustment procedures that: (1) is more reflective of the local market price and discounts, (2) is actuarially sound and not subject to price manipulation, fraud, waste and abuse, and (3) is easy to administer within current staffing levels. The contractor was also required to study cotton quality adjustment on a basis smaller than a unit (bale by bale).

The contractor’s recommendation was to develop regional quality adjustment factors based on econometric analysis of quality discount schedules of local elevators grouped into regions serviced by the various RMA Regional Offices. The contractor’s conclusions concerning cotton quality adjustment on a bale-by-bale basis state that enacting such procedure would likely result in approximately a 10% premium increase if done nationwide, but if done regionally, or as an option, some regions would likely incur a significantly greater increase.



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**ACTION:**

RMA is seeking input and comments from Reinsured Companies, RMA Field Offices, Compliance Offices, producer groups, and any other interested parties on the Quality Adjustment study and the associated recommendations, and requests ideas for improving the quality adjustment procedure that: (1) is more reflective of the local market price and discounts, (2) is actuarially sound and not subject to price manipulation, fraud, waste and abuse, and (3) is easy to administer within current staffing levels. The contractor's report and a PowerPoint summary have been placed on the RMA website at <http://www.rma.usda.gov/>.

RMA is requesting any input and comments be provided no later than August 29, 2003 to:

Mr. Dave Bell, Chief  
Loss Adjustment and Standards Branch  
Risk Management Agency  
P.O. Box 419293, Stop 0812  
Kansas City, Missouri 64141-6293

or via e-mail to: [Dave.Bell@rma.usda.gov](mailto:Dave.Bell@rma.usda.gov).

If you have any questions, please contact Mr. Bell at (816) 926-2397.

**DISPOSAL DATE:**

This Informational Memorandum is for the purpose of transferring information and does not change existing policy or procedure. The disposal date is December 31, 2003.