United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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Washington, DC
20250-0801

To: Board of Directors
Federal Crop Insurance Corporation

November 15, 2001

FROM: Phyllis W. Honor */s/ Phyllis W. Honor*
Acting Manager

SUBJECT: Board Memorandum No. 633
Docket No. CI-LGM-01-2
Pilot Livestock Gross Margin Insurance Policy for the 2002 Crop Year - Resubmitted by Iowa Agricultural Insurance Innovations, L.L.C.

There is submitted for your consideration the subject docket authorizing or not authorizing Iowa Agricultural Insurance Innovations, L.L.C. (IAII) request for reinsurance and administrative and operating subsidy for its resubmitted pilot Livestock Gross Margin (LGM) insurance policy beginning with the 2002 crop year.

Section 508(h) of the Federal Crop Insurance Act requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance if the policy is actuarially sound and the interests of producers are adequately protected.

It is necessary for the Board of Directors to select one of the following options to either approve, approve with revisions, or disapprove, based on an evaluation of all expert and other reviews, Docket No. CI-LGM-01-2.

> **RESOLVED, That Docket No. CI-LGM-01-2, Exhibit No. 2075, authorizing implementation of the pilot Livestock Gross Margin insurance policy with reinsurance and administrative and operating subsidy in the amount equal to 24.5 percent of the net book premium beginning with the 2002 crop year as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved with an amount up to $4.0 million to be allocated for the operation of this program AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as necessary to make the policy legally sufficient and to resolve those problems with policy terms identified by the reviewers; to develop an appropriate reinsurance agreement before sale can begin; and allocate funds to or from the amount of funds originally allocated to this submission depending on the amount of sales of this and other livestock policies.**

**OR**

**AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make technical policy changes as are necessary to make the policy legally sufficient and to resolve those problems with policy terms identified by the reviewers; to develop an appropriate reinsurance agreement before sale can begin; and allocate funds to or from the amount of funds originally allocated to this submission depending on the amount of sales of this and other livestock policies; and the Board reserves the authority to approve those problems raised by the reviewers relating to …**

**OR**

**RESOLVED, That the submitting entity shall be notified that the Board hereby disapproves Docket No. CI-LGM-01-2, Exhibit No. 2075, on the basis that the Board has been unable to make a determination that the interests of producers are adequately protected and that the policy is actuarially sound.**

"For Official Use Only" and "Secure Storage Required" Provisions Expired on: November 15, 2001

FCIC Docket No. CI-LGM-01-2

Pilot Livestock Gross Margin Insurance Policy for the 2002 Crop Year

Voted on by the Board of Directors on: November 15, 2001

Pilot Livestock Gross Margin Insurance Policy for the 2002 Crop Year
Docket No. CI-LGM-01-2

## SUMMARY

If approved by the Board, this docket will authorize implementation of the pilot Livestock Gross Margin insurance policy with reinsurance and administrative and operating subsidy in the amount equal to 24.5 percent of the net book premium beginning in the 2002 crop year, as authorized under sections 508(h) and 523(b) of the Federal Crop Insurance Act.

FOR FURTHER INFORMATION CONTACT:
Diana Moslak, (202) 720-2832

Pilot Livestock Gross Margin Insurance Policy for the 2002 Crop Year
Authorization for Approval or Disapproval
Docket No. CI- LGM-01-2

# A - INTRODUCTION

1. <u>Purpose</u>

If approved by the Board, this docket will authorize implementation of the pilot Livestock Gross Margin (LGM) insurance policy with reinsurance and administrative and operating subsidy beginning in the 2002 crop year, as authorized under sections 508(h) and 523(b) of the Federal Crop Insurance Act (Act).

II. <u>Justification</u>

The authority contained in this docket is needed for FCIC to implement the pilot LGM insurance policy. Section 508(h) of the Act requires FCIC to provide reinsurance to reinsured companies to provide additional insurance risk management tools to producers only if the policy is actuarially sound and interests of producers are adequately protected.

III. <u>Background Data – Pilot LGM Insurance Policy</u>

Section 508(h) of Act allows a person to submit to the Board of Directors (Board) other crop insurance policies that if the Board finds that the interests of the producers are adequately protected and that any premiums charged to the producers are actuarially appropriate, will be approved by the Board for reinsurance and for sale by approved insurance providers to producers at actuarially appropriate rates and under appropriate terms and conditions.

IAII is an Iowa limited liability company and the members are American Agrisurance, Inc., Farm Bureau Mutual Insurance Company, FarmRisk, Inc., and the Iowa Agricultural Insurance Innovations Consortium. The pilot LGM insurance policy provides coverage to livestock (swine) producers from production and marketing risks. The product provides coverage for the difference between the actual total gross margin (actual swine price for lean hogs during the month the insured actually markets the swine less feed costs as determined using corn and soybean meal futures settlement prices at the Chicago Board of Trade for the last five days of the future contracts) and the gross margin guarantee (Chicago Mercantile Exchange lean hog futures price less the price of feed based on the Chicago Board of Trade futures price for corn and soybean meal for the last five days of the future contracts). IAII will be calculating all applicable prices and submitting them to RMA for approval and dissemination to other reinsured companies. Coverage is not provided for death or other loss or destruction of swine or any other type of losses except for a decline in price.

Pursuant to section 522 of the Act, IAII has submitted estimated costs for reimbursement of research and development costs of $375,764.94 and maintenance costs of $25,000 per year.

This product was first submitted to the FCIC Board of Directors (Board) on August 22, 2001, (Docket No. CI-LGM-01-1, Exhibit No. 2061) where in lieu of an extension of time, the Board granted IAII's request for a suspension of action to allow IAII to address problems identified by the expert reviewers, Risk Management Agency (RMA) staff and legal counsel.

The submission was revised and resubmitted to RMA on October 12, 2001, with the following revisions:

1. Guidelines for verification of hog ownership and facilities to produce hogs have been submitted.
2. Removal of 10 percent catastrophic load.
3. Evidence to support that assumptions of rating methodology are efficient and correct have been submitted.
4. Removal of 4 percent licensing fee.
5. Revising temporal structure to better coordinate with FCIC's operating systems.
6. Requesting no producer subsidy.

On October 24, 2001, RMA determined the resubmission to be complete requiring Board determination of expert review by November 8, 2001. The resubmission was given to the Board on October 25, 2001, and the Board on November 1, 2001, determined expert review of the revisions was not required.

## B – AUTHORIZATION

1. General
   Authority to approve the pilot Livestock Gross Margin (LGM) insurance policy with reinsurance and administrative and operating subsidy beginning with the 2002 crop year is contained in sections 508(h) and 523(b) of the Act (7 U.S.C. 1508(h) and 1523(b)).

II. Program Description
   The authority provided by this docket will enable FCIC to implement the pilot LGM insurance policy for the 2002 crop year for swine in 99 counties in Iowa. The pilot LGM insurance policy provides coverage for the difference between the actual total gross margin (actual swine price for lean hogs less feed costs as determined using corn and soybean meal futures settlement prices at the Chicago Board of Trade) and the gross margin guarantee (Chicago Mercantile Exchange lean hog futures price less the price of feed based on the Chicago Board of Trade futures price for corn and soybean meal). Coverage is not provided for death or other loss or destruction of swine or any other type of loss except a decline in price.

III. Operating Provisions
   The operating provisions for implementing this program are the pilot Livestock Gross Margin insurance policy provisions, actuarial documents, underwriting rules, and administrative procedures approved by the Board for RMA to administer.

IV. Administration
   If approved by the Board, this program may be offered by all insurance companies reinsured by FCIC and will be carried out in accordance with the provisions of the Act. The reinsurance and administrative and operating subsidies will be provided in accordance with the provisions of a new Standard Reinsurance Agreement (SRA).

V. Effective Date
   This docket will become effective upon signature by the Chairman of the Board.

VI. Classification
   This program docket is for official use only.

VII. Availability of Funds
   The availability of funds is discussed in the attached memorandum from the Chief Financial Officer of RMA.

VIII. For Official Use Only Designation
   The "For Official Use Only" designation of this docket will terminate upon approval of this docket by the Board.

<u>FINAL RESOLUTION</u>

RESOLVED, That Docket No. CI-LGM-01-2, Exhibit No. 2075, authorizing implementation of the pilot Livestock Gross Margin insurance policy with reinsurance and administrative and operating subsidy in the amount equal to 24.5 percent of the net book premium beginning with the 2002 crop year as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved with an amount up to $3.0 million to be allocated for the operation of this program AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as necessary to make the policy legally sufficient and to resolve those problems with policy terms identified by the reviewers; to develop an appropriate reinsurance agreement before sale can begin; and allocate funds to or from the amount of funds originally allocated to this submission depending on the amount of sales of this and other livestock policies.

Adopted by the Board of Directors on: November 15, 2001

*/s/ Diana Moslak*
Diana Moslak, Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

*/s/ Keith Collins*
Keith Collins
Acting Chairman of the Board

11/15/01
Date