

AGENDA  
FEDERAL CROP INSURANCE CORPORATION  
BOARD OF DIRECTORS MEETING  
Williamsburg Room, Room 104-A  
Washington, D.C.  
March 29, 2001  
(1:00 p.m - 3:00 p.m.)

Open Session

CALL TO ORDER	Phyllis W. Honor
Introductions	Phyllis W. Honor
Opening Comments/Remarks	Thomas Hunt Shipman

ACTION ITEMS

Selection of Chairperson	Phyllis W. Honor
Minutes of the January 12, 2001 Meeting	Chairperson
Resolution to Direct FCIC to Develop Certain Definitions and to Develop Internal Procedures for Use in Governing Changes Made to Any Existing and Any New or Pilot Programs	Keith Collins
Resolution to Rescind Board Memorandum No. 589 (Pilot Income Protection - Barley Crop Insurance Program Malting Barley Price and Quality Endorsement; Approval of Reviewers; Task Order and Statement of Work; and Execution of Contract)	Phyllis W. Honor
Resolution to Approve an Expanded List of Reviewers for the Review of Programs by Persons or Entities Experienced as Actuaries and in Underwriting and an Amended General Statement of Work (Initial list approved at September 8, 2000 Meeting)	Vondie O'Conner

INFORMATIONAL ITEMS

Acting Manager's Report

Phyllis W. Honor

Update on Study of Localized Prevented Planting

Tim B. Witt

Update on Pilot Forage Seed Crop Insurance Program

Tim B. Witt

Update on Submission of Policies, Provisions of Policies,  
and Rates of Premium Regulation

Tim B. Witt

Next Meeting

Chairperson

Adjourn

Chairperson



United States  
Department of  
Agriculture

Federal Crop  
Insurance  
Corporation

1400 Independence  
Ave, SW  
Stop 0801  
Washington, DC  
20250-0801

TO: Board of Directors  
Federal Crop Insurance Corporation

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

SUBJECT: Board Memorandum No. 601  
Resolution to Select an Acting Chairperson of the Federal Crop Insurance  
Corporation Board of Directors

<p>Minute Exhibit No. 2029 Board Meeting of 3/29/01</p>
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There is submitted for your consideration and approval a resolution to select the Chief Economist of the U.S. Department of Agriculture, and current member of the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), to serve as Acting Chairperson of the FCIC Board until such time as a Chairperson may be elected.

The Federal Crop Insurance Act (7 U.S.C. 1501 *et seq.*), as amended by the Agricultural Risk Protection Act of 2000 (ARPA), requires the Board to select a member of the Board to serve as Chairperson. On September 18, 2000, the Board approved the Under Secretary of Agriculture responsible for the Federal crop insurance program to serve as Chairperson of the FCIC Board. The change in Administration creates a vacancy in that position.

I recommend approval of the Chief Economist of the U.S. Department of Agriculture, who also serves as a member of the FCIC Board, to serve as Acting Chairperson of the FCIC Board through use of the following resolution:

R E S O L U T I O N

WHEREAS, the change in Administration creates a vacancy in the position of Under Secretary of Agriculture for Farm and Foreign Agricultural Services which individual served as Chairperson of the Federal Crop Insurance Corporation Board of Directors; NOW THEREFORE BE IT

RESOLVED, That the Chief Economist of the U.S. Department of Agriculture, and current member of the Federal Crop Insurance Corporation Board of Directors, is selected to serve as Acting Chairperson of the Federal Crop Insurance Corporation Board of Directors until such time as a Chairperson may be elected.

PASSED

/s/ Diana Moslak

Diana Moslak  
Secretary  
Federal Crop Insurance Corporation

3/29/01

Date

[SEAL]

Approved by:

/s/ Keith Collins

Keith Collins  
Acting Chairman of the Board

3/29/01

Date

**MINUTES  
OF THE  
MEETING OF THE BOARD OF DIRECTORS  
OF THE  
FEDERAL CROP INSURANCE CORPORATION**

Minute Exhibit No. 2028  
Board Meeting of 3/29/01

A meeting of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC) was held on January 12, 2001, in room 104-A, Williamsburg Room, Jamie L. Whitten Federal Office Building, U.S. Department of Agriculture, Washington, D.C. The public was invited to attend.

Meeting  
January 12, 2001

The meeting was called to order at 10:10 a.m.

Call to Order

Present were August Schumacher, Jr., Under Secretary for Farm and Foreign Agricultural Services; Keith Collins, Chief Economist, USDA; Michael Keating and Bobby Webster, constituting a statutory quorum; Kenneth D. Ackerman, Manager, FCIC; John Zirschky, Deputy Manager, FCIC; and Diana Moslak, Secretary.

Present

Also present were Tom Grau and Butch May, Farm and Foreign Agricultural Services; Kim Arrigo, Office of the General Counsel; Joe Glauber of the Office of the Chief Economist; Joe Connor of the Office of Management and Budget; Tim Witt, Jim Driscoll, Nelson Maurice, Tim Hoffmann, Leiann Nelson, Bob Vollmert, Marian Jenkins, Doug Hagel, Mary Slay, Vondie O'Conner, Pat Engel, Heyward Baker and Dan Pathak of the Risk Management Agency (RMA); Stephen Frerichs of American Association of Crop Insurers; Linda Vickers, Consultant for Rural Community Insurance Services; David Bossman, Peter Griffin, Phil Olson and Robby Ritchey of American Agri-Business Insurance Company (AABIC); Paul Peterson of the Chicago Mercantile Exchange; and Robert Parkerson and Dallas Smith of National Crop Insurance Services.

A motion was made and seconded to dispense with the reading of the Minutes and to approve the Minutes of the meeting of the Board held on November 17, 2000.

Dispense with Reading  
and Minutes Accepted

The motion carried. (Exhibit No. 2025.)

A motion was made and seconded to adopt the following resolution:

RESOLVED, That the resolution to contract out for the review of the proposed Potato Cost of Production Plan be, and it is hereby, rescinded, by order of the Board of Directors on January 12, 2001.

The motion carried. (Board Memorandum No. 599. Exhibit No. 2026.)

A motion was made and seconded to adopt the following resolution:

RESOLVED, That Docket No. CI-APH-01-1, Exhibit No. 2027, authorizing the Federal Crop Insurance Corporation to continue to offer through the 2003 crop year the Basic Unit Actual Production History Pilot program to allow insured producers to request that their optional unit production history be combined into a basic unit to calculate a personal transitional yield which will be used to establish the actual production history yield upon which their insurance guarantees will be based for separate optional units be, and it is hereby approved pending clearance for legal sufficiency by the Office of the General Counsel AND BE IT FURTHER RESOLVED, That the pilot program will continue to apply to all crops except sugar beets and dry peas (which are authorized Master Yields) and will be available in Daniels, Fergus, Hill, Pondera, and Yellowstone counties, Montana for the 2001 crop year for crops with 11/30/00 and 12/31/00 contract change dates, for the 2002 crop year for crops with 11/30/01 and 12/31/01 contract change dates and for the 2003 crop year for crops with 11/30/02 and 12/31/02 contract change dates and for the 2002 and 2003 crop years for all crops with 6/30/01 and 6/30/02 contract change dates, respectively.

The motion carried. (Board Memorandum No. 600. Exhibit No. 2027.)

A motion was made and seconded to go into Executive Session. The motion carried. The Executive Session convened at 10:40 a.m. A statutory quorum was present.

Present were August Schumacher, Jr., Under Secretary for Farm and Foreign Agricultural Services; Keith Collins, Chief Economist, USDA; Michael Keating and Bobby Webster, constituting a statutory

Recission of Board  
Memorandum No. 590

Basic Unit Actual  
Production History  
Pilot Program  
Continuation

Executive Session

quorum; John Zirschky, Deputy Manager, FCIC; and Diana Moslak, Secretary. Also present were Kim Arrigo, Office of the General Counsel;

Joe Glauber of the Office of the Chief Economist; and Joe Connor of the Office of Management and Budget.

At 10:48 a.m., RMA staff and AABIC were invited into Executive Session.

Present were Butch May, Farm and Foreign Agricultural Services; Tim Witt, Jim Driscoll, Nelson Maurice, Tim Hoffmann, Marian Jenkins, Heyward Baker, Dan Pathak, Doug Hagel, Bob Vollmert, and Leiann Nelson of the RMA; David Bossman, Peter Griffin, Phil Olson, Dan Carlisle and Robby Ritchey of AABIC; and Paul Peterson of the Chicago Mercantile Exchange.

The Executive Session concluded at 11:43 a.m., to reconvene in Open Session at 11:55 a.m. A statutory quorum was present.

David Bossman of AABIC proposed the following to the Board:

That the Board suspend action on the Livestock Risk Protection (LRP) program submission until such time as the submitting Company submits its formal response to RMA staff and Board comments as a total package ready for Board approval and potential implementation, at which time RMA will make a determination within 5 days whether expert reviews are then necessary. If expert reviews are necessary, the Board will proceed as soon as possible to contract for such reviews, and upon the receipt of those reviews, the Board will have 45 days to take action on the submission. If expert reviews are not required, the Board will have 45 days after the determination that they are not necessary to take action on the submission.

A motion was made and seconded to accept AABIC's proposal and to suspend Board action on the LRP program submission as proposed by AABIC.

The motion carried. (This action tables Board Memorandum No. 592; Exhibit No. 2018, for consideration at a future Board meeting.)

There being no further business to come before the Board, the meeting adjourned at 12:05 p.m., sine die.

Reconvene

Request for Suspension of Action by AABIC - LRP Program

Acceptance to Suspend Action for the LRP Program

Adjourn

January 12, 2001

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





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TO: Board of Directors  
Federal Crop Insurance Corporation

March 29, 2001

FROM: Phyllis W. Honor  
Acting Manager

SUBJECT: Board Memorandum No. 602  
Resolution to Direct the Manager of the Federal Crop Insurance Corporation to Develop Certain Definitions and to Develop Internal Procedures for Use in Governing Changes Made to Any Existing and Any New or Pilot Programs

Board member Keith Collins has asked that there be submitted for your consideration and approval a resolution to direct the Manager of the Federal Crop Insurance Corporation (FCIC) to develop certain definitions and to develop internal procedures for use by the Board in determining which changes made to any existing policy and any new or pilot program and related materials must be submitted to the Board for approval or for expert review prior to implementation.

Through use of the following resolution, FCIC is directed to develop the following definitions and to develop internal procedures for use in governing changes made to any existing and any new or pilot programs:

### R E S O L U T I O N

WHEREAS, section 505(e) of the Federal Crop Insurance Act (Act) (7 U.S.C. 1505(e)) made a change in the way the Federal Crop Insurance Corporation (FCIC) will conduct its business by requiring the Board of Directors (Board) to contract for independent review of (1) any policy or plan of insurance and any related material offered under the Act or (2) modification of a policy or plan of insurance submitted under section 508(h) of the Act, AND BE IT FURTHER

RESOLVED, That the Board directs the Manager, FCIC, to provide to the Board by the next Board meeting (1) definitions for the terms “maintenance,” “expansion,” “significant,” and “nonsignificant” changes in order to determine what changes need to be submitted to the Board or for expert review; (2) a list and description of the different general types or categories of changes that are made to any existing policies published in the Code of Federal Regulations, any new or pilot programs, and their related materials and (3) a list and description of the different general categories of changes that can be made to a policy, new or pilot program, or related materials by written agreement, AND BE IT FURTHER





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TO: Board of Directors  
Federal Crop Insurance Corporation

March 29, 2001

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

Minute Exhibit No. 2031  
Board Meeting of 3/29/01

SUBJECT: Board Memorandum No. 603  
Resolution to Rescind Board Memorandum No. 589 - Approval of  
Reviewers and Alternates, Task Order and Statement of Work for the Pilot  
Income Protection - Barley Crop Insurance Program Malting Barley Price  
and Quality Endorsement, and Execution of Contract

On October 19, 2000, the Board of Directors (Board) approved a resolution to approve a list of reviewers and alternates and the task order and statement of work for the review of the Income Protection - Barley Crop Insurance Program Malting Barley Price and Quality Endorsement and to authorize the Risk Management Agency's (RMA) Director of Contract Management and Special Projects to enter into contracts with General Services Administration (GSA) FEDSIM Millenia contract (GS00T99ALD0210), GSA Schedule 70, GSA MOBUS Schedule, or NIH CIOSP for the review of this program.

Subsequent to that Board action, it was determined that expert review was not statutorily required for this program and RMA did not contract out for independent review of the program changes. For this reason, it is requested that the Board take action to rescind the approval of Reviewers and Alternates, Task Order and Statement of Work for the Income Protection - Barley Crop Insurance Program Malting Barley Price and Quality Endorsement and Execution of Contract resolution contained in Board Memorandum No. 589 (copy attached) to clear the records of the Corporation.

I recommend approval of the following resolution:

R E S O L U T I O N

WHEREAS, by resolution approved by the Board of Directors of the Federal Crop Insurance Corporation, the Risk Management Agency's Director of Contract Management and Special Projects was authorized to enter into and execute contracts with persons or entities approved by the Board to review the proposed changes to the Income Protection - Barley Crop Insurance Program Malting Barley Price and Quality Endorsement prior to Board action; and

WHEREAS, a subsequent decision was rendered that expert review of the program is not required under the Federal Crop Insurance Act; and





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TO: Board of Directors  
Federal Crop Insurance Corporation

March 29, 2001

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

Minute Exhibit No. 2032  
Board Meeting of 3/29/01

SUBJECT: Board Memorandum No. 604  
Resolution to Approve an Expanded List of Reviewers for the Review of  
Programs by Persons or Entities Experienced as Actuaries and in  
Underwriting and an Amended General Statement of Work

There is submitted for your consideration and approval a resolution to execute contracts for reviews of policies, plans of insurance, and related materials. These contracts would be in addition to those authorized under Board Memorandum 575 (copy attached).

The Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), as amended by the Agricultural Risk Protection Act of 2000, requires the Board to enter into contracts with persons experienced as actuaries and in underwriting for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed under section 508(h) of the Act. Attached is a list of additional persons that preliminary market research indicates may be interested in, and qualified for, entering into contracts with the Board to conduct reviews. Also attached is an amended general statement of work (SOW) necessary to structure the basic contracts. On October 19, 2000, the Board amended the statement of work to require a one-page biography of each reviewer, an electronic and written hard-copy of the report, and to provide the Risk Management Agency (RMA) the option to require additional work. RMA has further amended the attached SOW to allow any pre-approved travel expenses. As specific items are submitted for Board action, more detailed task orders will be developed for assignment to the reviewers that have entered into a contract with the Board.

Through use of the following resolution, I recommend that: 1) the attached additional list of reviewers be approved 2) Risk Management Agency's Director of Contract Management and Special Projects be directed to perform the activities necessary to enter into contracts with persons or entities on the attached list, and 3) the attached general statement of work be used to structure the contracts.

R E S O L U T I O N

WHEREAS, The Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), as amended by the Agricultural Risk Protection Act of 2000, requires the Board to enter into contracts with persons experienced as actuaries and in underwriting for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed under section 508(h) of the Act, NOW  
THEREFORE BE IT

RESOLVED: That 1) the Risk Management Agency be directed to perform the activities necessary to enter into contracts with persons or entities on the attached list, and 2) the attached general statement of work be used to structure the contracts.

PASSED

/s/ Diana Moslak                      3/29/01  
Diana Moslak                              Date  
Secretary  
Federal Crop Insurance Corporation

[SEAL]

Approved by:

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

3/29/01  
Date

Attachments

**ATTACHMENT 1**

**Proposed Reviewers with Resumes**

**Actuaries, general:**

John Pierce

**Underwriters, general:**

Kenneth Ackerman

William Hiatt

Michael O'Connell

**Insurance Provider nominee:**

American Farm Bureau Insurance Services

**General Statement of Work**

**Statement of Work for  
Actuarial and Underwriting Reviews for the FCIC Board of Directors**

**C.1. Background**

The Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (Act), Public Law (P.L.) 104-127 signed April 4, 1996. This Act amended the Department of Agriculture Reorganization Act of 1994, P.L. 103-354, Title II, which required the Secretary to establish within the Department an independent office responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 et., seq.), any pilot or other program involving revenue insurance, risk management education, risk management savings accounts; the use of the futures market to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and, other programs the Secretary of Agriculture considers appropriate. The Agricultural Risk Protection Act of 2000 further modified the Federal Crop Insurance Act to require the FCIC Board of Directors (Board) to establish procedures under which any policy or plan of insurance, as well as any related material or modification of such a policy or plan of insurance, shall be subject to independent review by persons experienced as actuaries and in underwriting, as determined by the Board.

**C.2. Definitions**

The vendor shall conduct a review of the attached **submission**. The review is to include, but is not limited to, the items in **C.5 Description of Work**. For definitions of the terms used in **C.5 Description of Work**, see the definitions section of "Interim Procedure For The Submission and Review of New and Revised Crop Insurance Policies" approved by the Board on September 18, 2000.

**C.3. Deliverables**

**Mandatory deliverables:** The vendor shall deliver both a hard copy and an electronic (MS Office) report of the review of the attached submission that includes: 1) a written summary of the findings of the review, not to exceed two pages in length, 2) a written report addressing the items in **C.5 Description of Work** that are within the scope of the expert reviewer's knowledge, and any additional information at the discretion of the vendor. In addition, the reviewer shall submit a personal biography not to exceed one



page that describes the experience, education, and any certifications or professional designations that pertain to the reviewers ability to conduct the review.

**Optional deliverables:** When directed by the Board through the Director of Contract Management and Special Projects, the reviewer will be required to explain the results of the review to the Board either orally or in writing, or answer any question that may arise pertaining to the review. This option is at the sole discretion of the Board, and will be binding upon the reviewer for a period not to exceed 45 days after the required delivery date of the mandatory deliverables.

#### **C.4. Delivery Schedule**

Mandatory deliverables are due to the Secretary to the Board not later than **[insert number of days]** calendar days after the date of award of the task order.

#### **C.5. Description of Work**

The expert reviewers' mandatory written report will address each of the following items within the scope of the expert reviewer's knowledge, and may include additional information at the discretion of the expert reviewer.

- (1) Protection of producers' interests.
  - (A) Does the policy provide meaningful coverage that is of use to producers, and provide it in a cost-efficient manner?
  - (B) Is the policy clearly written such that producers will be able to understand the coverage that they are being offered? Does the policy language permit actuaries to form a clear understanding of the payment contingencies for which they will set rates? Is it likely that an excessive number of disputes or legal actions will arise from misunderstandings over policy language?
  - (C) Is the mechanism for determining liability (i.e.- the amount of coverage) clearly stated and supported by an example?
  - (D) Is the mechanism for determining the amount of premium clearly stated and supported by an example?
  - (E) Are the mechanisms for calculating indemnities clearly stated and supported by an example?
  - (F) In the case of price or revenue policies, are the mechanisms for establishing price clearly stated and supported by an example?

- (G) Is adequate, credible, and reliable data available for establishing expected market prices for insured commodities? Is it likely that the data will continue to be available? Is the data vulnerable to tampering if the proposed policy is approved? Is the data likely to be available when needed? Is the proposed system for publishing prices feasible?
- (H) Does the policy avoid providing coverage in excess of the expected value of the insured crop?
- (I) Does the policy contain indemnity or other provisions that can not be objectively verified by loss adjusters, underwriters, or auditors?
- (J) Is the policy likely to treat all similarly-situated producers the same?
- (K) Will insureds be able to comply with all requirements of the policy?
- (L) Does the policy create vulnerabilities to waste, fraud, or abuse?
- (M) Is the product likely to adversely affect the agricultural economy of the crop that is proposed for coverage, or of other crops or areas?

(2) Actuarial soundness.

- (A) Is adequate, credible, and reliable rate-making data available? Is it likely that the data will continue to be available? Is the data vulnerable to tampering if the proposed policy is approved?
- (B) Are the explicit and implicit assumptions used in the rating process reasonable?
- (C) Are the technical analyses (e.g.- stochastic and other simulations) technically correct? Do they provide credible, relevant results?
- (D) Is the data used for the analyses appropriate, reliable, and the best available?
- (E) Does the certification from an actuary or similar person provide adequate support for the submission?
- (F) Does experience from prior years and relevant crops and areas support the validity of the proposed rates?
- (G) Is the product likely to be sold in a sufficient number such that actuarial

projections would be credible?

- (H) Are the proposed premium rates likely to cover anticipated losses and a reasonable reserve?
- (3) Other review areas.
- (A) Does this policy provide coverage that, in whole or part, is generally available from the private sector?
  - (B) Does the policy propose to insure a peril that is not authorized by the Act?
  - (C) Does the policy place an unreasonable administrative burden on the insured, the AIP's, or the Federal crop insurance program?
  - (D) To the extent of the reviewer's knowledge, does the policy comply with all requirements of the Act and the public policy goals of the Corporation?

## **5. Attachments**

- (A) The submission for review.
- (B) "Interim Procedure For The Submission and Review of New and Revised Crop Insurance Policies" approved by the Board on September 18, 2000.

### **Cost and Pricing for Actuarial and Underwriting Reviews for the FCIC Board of Directors**

The mandatory tasks shall be performed at the negotiated loaded hourly rate for the contract, and shall not exceed **[insert number of hours]** billed hours. No other costs will be payable or reimbursed under the mandatory tasks. The option tasks, when required by the Board, shall be performed at the negotiated loaded hourly rate for the contract, and shall not exceed **[insert number of hours]** billed hours plus any pre-approved travel expenses.

Upon delivery of the mandatory deliverables, the vendor shall submit to the Director of Contract Management and Special Projects an invoice listing each person contributing to the review, their number of hours billed to this task, their negotiated contract rate for that person/clin, and the total amount billed for the task. The vendor shall certify in writing to the accuracy of the billing information.



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TO: Board of Directors

March 29, 2001

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

Minute Exhibit No. 2033  
Board Meeting of 3/29/01

SUBJECT: Board Memorandum No. 605  
Acting Manager's Report

**1. Summary of Business 2000/2001 (as of 03/26/01)**

**Summary of Business, 2000:** The 2000 book of business and program participation numbers are complete at this time with only late and corrected claims continuing to create minor changes in the crop year statistics. To date, nearly \$34.3 billion dollars in liability have been reported on approximately 205 million acres of crop land representing 1,319,235 crop policies. Indemnities in the amount of nearly \$2.442 billion have been paid out to date. Acreage insured under additional coverage policies increased by about 14 million acres between 1999 and 2000, while CAT acres decreased by about 4.8 million acres. The 2000 liability represents an increase of more than ten percent from 1999. Actual losses for the year ended up about \$400 million higher than estimated by the Regional Offices (RO) from June to December. The Loss Ratio is .97. A copy of the National Summary of Business Report, as of March 26, 2001 is attached.

**Preliminary Summary of Business, 2001:** Although the bulk of spring acreage reports have yet to be filed, FCIC is expecting the new premium subsidies to assist producers in obtaining higher levels of coverage this year. To date premium volume is \$434 million. The current Summary of Business Report for 2001 indicates that only 201,877 policies with premium have been reported covering 29 million net acres. Total liability is \$7.1 billion and \$24 million has been paid out for 2001 crop losses to date.

**Current Loss Assessment:** Risk Management Agency (RMA) is maintaining a strategy of monitoring loss situations closely as they develop to ensure uniformity between insurance providers and equal treatment of policyholders. This strategy includes a continuing emphasis to all parties to the crop insurance program of the need to assess requests for policy and procedural changes for their impact on the larger program issues including funding, actuarial soundness, simplification, and the contractual obligations between FCIC, insurance providers, and producers.

**2. Program Issues:****2. Crop Revenue Coverage – Durum Wheat**

Durum wheat is insurable under Crop Revenue Coverage (CRC) in fifteen North Dakota counties and by written agreement in adjoining counties. A key element in providing this coverage is the establishment of a base price. The CRC Commodity Exchange Endorsement - Wheat (CEEW) defines the base price for durum wheat as the February average daily settlement price for the harvest year's Minneapolis Grain Exchange (MGE) September durum wheat futures contract.

A minimum of 15 daily prices must be included in the average and each daily price must have a minimum of 25 open interest contracts. The CEEW also provides that if the minimum number of daily prices with the minimum level of open interest contracts are not found for the September contract during the month of February, prices may be taken for the contract immediately prior to the September contract, which is the July durum wheat futures contract.

For the 2001 crop year, there were insufficient numbers of open interest contracts to get the required fifteen daily prices for the MGE September durum wheat futures contract and the MGE July durum wheat futures contract. Since the minimum requirements were not met, no CRC base price for durum wheat could be determined for the 2001 crop year.

As a result, RMA issued Manager Bulletin MGR-01-011 (copy attached) advising reinsured companies of the non-availability of a CRC base price for durum wheat for the 2001 crop year. On March 9, 2001, RMA issued Manager Bulletin MGR-01-011.1 (copy attached) which advised reinsured companies, that unless they elected to accept all liability under the policy, all CRC wheat policies where durum wheat was reported on the acreage report for the 2000 crop year and the producer elected the separate durum wheat price must be canceled in writing for the 2001 crop year by the applicable cancellation/termination date of March 15, 2001.

On Thursday March 15, 2001, a group of North Dakota producers asked U.S. District Judge Rodney Webb to issue a temporary restraining order against the Department of Agriculture. The producers claimed the Department of Agriculture had no legal right to cancel a crop insurance program for durum wheat just days before their sign-up deadline.

Judge Webb denied the producers' request for a restraining order; saying he did not believe the RMA is mandated by Congress to provide the insurance program.

## **2. Program Issues:**

### **Southern Minnesota Sugar Beets**

On March 2, 2001, RMA issued Manager Bulletin MGR-01-010 (copy attached) to address damage to sugar beet crops affected by drought, freeze, and other natural perils. RMA was notified that a freeze occurred on October 6 - 10, 2000, in southern Minnesota which included the counties of Big Stone, Brown, Chippewa, Kandiyohi, Lac Qui Parle, McLeod, Meeker, Nicollet, Pope, Redwood, Renville, Sibley, Stearns, Stevens, Swift, and Yellow Medicine. After the freeze, insured sugar beet producers did not remove the tops from the affected sugar beet crop and allowed the crop to heal.

After harvesting, the sugar beets were delivered to a farmer-owned cooperative for processing. Samples of each load of sugar beets were cut and tested to determine whether damage had occurred. At the time the sugar beets were delivered to the cooperative, there was no visible freeze damage. The sugar beets were placed in piles, as customary, after being weighed and tested to await processing.

Unseasonably warm temperatures occurred in southern Minnesota after the sugar beets were placed in piles. According to sugar beet experts, freezing and thawing of drought-stressed sugar beets causes accelerated tissue cell damage and sugar loss. Damaged tissues became susceptible to microorganisms that greatly increased the decomposition of sucrose reducing sugar content levels.

Because the processor was telling producers that the sugar beets were fine upon delivery and that it could process the beets, producers had no reason to know that their beets had been damaged until notified by the processor in mid-December. Since producers were not aware of any damage until after the end of the insurance period, they could not have provided a timely notice of damage which is a pre-requisite condition for filing a claim for indemnity.

MGR-01-010 informs the insurance providers that a cause of loss that damages the production during the insurance period, but is not manifested until after the insurance period is a covered loss and if the producers did not know that their production was damaged within the time period to report losses, that time period would not be enforceable under the basic tenets of contract and insurance law. RMA informed the insurance providers that the payment of losses under these conditions would be reinsurable.

Private insurance providers through their trade association have expressed their disagreement with RMA's position and have requested that RMA withdraw Manager Bulletin MGR-01-010. RMA has met with the trade association and the insurance providers to discuss the information used to reach its' conclusions.

## **2. Program Issues:**

### **2000 Crop Year Dry Beans - Pink Eyed Beans**

As a result of numerous complaints from Texas and New Mexico, RMA issued an Informational Memorandum on December 15, 2000 (copy attached), regarding requirements for insuring "pinkeye" beans with written agreements. These complaints alleged that policies were issued for "pink-eyed" beans using standard county rates where Blackeye Beans were insurable. On consulting with the Grain Inspection Packers and Stockyards Administration (GIPSA), RMA was advised that "pinkeye" beans would be classified as Miscellaneous Beans under the standards referenced in the policy and county actuarial tables. Miscellaneous Beans were required to be insured with a written agreement unless listed on the county actuarial tables.

In February 2001, GIPSA advised RMA in writing that they had reviewed 2000 crop year samples and determined that the "pinkeye" beans they had examined would be classified as Blackeye Beans, thus making them insurable using standard rates in counties where Blackeye Beans were listed on the county actuarial tables. RMA issued Manager's Bulletin MGR-01-013 (copy attached) advising that "pinkeye" beans insured under standard Blackeye Bean rates or written agreement for 2000 were insurable and that for the 2001 crop year, "pinkeye" beans would be insurable using standard rates in any county with Blackeye Beans listed on the county actuarial table.

### **Coverage for Organic Farming Practices**

Section 123 of the Agricultural Risk Protection Act of 2000 (ARPA) requires that organic farming practices be recognized as good farming practices. As a result, on January 17, 2001, RMA issued Manager's Bulletin, MGR-01-004 (copy attached), regarding Organic Farming Practices and the Implementation of the Section 123 of Agricultural Risk Protection Act of 2000 (ARPA). The 2001 Organic Crop Insurance Underwriting Guide was issued by on March 15, 2001 (copy attached).

### **3. Status Report on Implementation of ARPA**

#### **Risk Compliance Report on ARPA Section 121**

RMA is charged with implementing section 121 of ARPA. RMA has been working closely with the Farm Service Agency (FSA) on five implementation teams. Each team is implementing a section of the legislation. The areas the teams are addressing are:

Consultation with FSA State Committees, Training of FSA Personnel, Claims Audit, Fraud Referrals and Data Reconciliation. The teams focused their work on developing internal communications and procedures for the two agencies to work together at the field level. The two agencies developed a Coordinated Plan for Implementation signed by Secretary Glickman on January 12, 2001, as required by ARPA. It was presented to the crop insurance industry on January 18, 2001. The ARPA teams were then expanded to include company participants. On March 1, 2001, the RMA and FSA team leaders met with the company participants to brief them in detail on the work done to date by the teams.

On March 28-29, 2001, the designated FSA State Office Points of Contact are being trained in Kansas City on the RMA compliance and oversight process. This will include the Consultation, Referrals and Claims Audit procedures developed by the teams. The procedures were incorporated into a handbook and will be distributed in early April. Also in April, training of the FSA county offices in loss adjustment begins. The reconciliation of RMA and FSA data from the 2000 FSA Disaster Assistance program is currently underway. Procedures to automate the process will be developed later in the year (copy is attached).

#### **Contracting Skills-Research and Development**

Research and Development has implemented a comprehensive training program to provide a series of classes on contracting skills to meet the new mandate of ARPA of accomplishing the mission of the agency through contractors. Since numerous R&D staff will be less hands-on and more contractor project managers, we are working to retool our workforce and equip them with the knowledge and skills necessary to be successful in the new culture and way of doing business. A number of classes have already been held this year: Introduction to Contracting, Cost Estimating, Task Order Contracting and Contract Administration. Four more classes are scheduled to be held before the end of the fiscal year: COR Training, Task Order Writing, Contract Law and Best Value Training. These training classes will give the staff the needed information and skills to move forward in developing contract vehicles to implement ARPA. The training that



has been provided to date has already had significant impact on our ability to accomplish tasks via contract. For example, a contract to obtain a pool of contractors for developing new risk management programs has been awarded and several task orders under this contract are in the process of being competed for by the pool of contractors.

### **ARPA Contracting Expenditures for FY2001:**

Sec 131 Reimbursements: \$10,000,000-This requires a regulation describing the process and requirements for reimbursement of costs. The draft regulation is in OGC for review. Once the regulation is final, reimbursements will be contingent upon submitting companies making successful requests for reimbursement.

Sec 131 R&D Contracting and Partnerships: \$20,000,000 -\$2,000,000 of this was assigned to RME for educational activities. The remainder is for R&D product development. Two task orders have been released for competition within this pool of contractors. Several more task orders are in process within R&D. Plans are being developed to expand the pool of contractors so that all projects for which funds are available can be awarded.

Sec 121 Program Compliance: \$9,000,000-\$5,000,000 has been spent on a cooperative agreement with Tarleton State University, Texas and the remainder is being spent on data reconciliation between RMA and FSA data, and for training of FSA personnel for risk compliance assistance.

Sec 133 Risk Management Education: \$10,000,000 -\$5,000,000 for risk management education has been transferred to CSREES. The remaining \$5,000,000 is being used by RME for crop insurance education. Two projects are proceeding through FEDSIM, with other cooperative agreements, grants, and contracts in process.

Sec 142 Board Reviews: \$3,500,000-This money is available for Expert Reviews and certain implementation costs. One Board review, (Income Barley) is in process with FSA contracting, and is awaiting signature of an AD-700. However, if the Board decides to rescind its previous decision that expert review of these program changes are required, no reviews will be pending.

Sec 225 Livestock and Poultry Waste: \$5,000,000 -Insurance Services is working on a proposal.

**Section 133-Education and Risk Management**

ARPA directs RMA to “establish a program under which crop insurance education is provided to producers in under served states.” Secretary Glickman identified the 15 under served states which are: Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Maryland, Delaware, West Virginia, Nevada, Utah and Wyoming. The Act provides \$5 million in funding for FY 2001-2005. The Raleigh Regional Office will host kick-off conferences in May and June to implement Section 133. A five year strategic and 1 year action plan outlining the direction and focus of risk management education plans and activities for these 15 under-served states was approved with implementation currently underway. As a result, several ideas for potential projects have been received from the private sector which are currently being reviewed.

**Section 225-Improved Storage and Management of Livestock and Poultry Waste**

Section 225 directs the Secretary to review and assess the actual or potential failure of waste storage and handling systems used in the livestock or poultry production and the environmental damages associated with the failure of the systems and to study and demonstrate appropriate market oriented mechanisms to assist livestock producers and poultry producers to prevent the failure of the systems and rectify environmental damages associated with the failure of the systems. This section is to be carried out through grants, contracts and cooperative agreements.

On October 13, 2000, RMA received an unsolicited proposal. The proposal was reviewed and later revised to focus more attention on mechanisms that may be used to assist producers to better manage handling and storage of animal waste and mitigate environmental damages caused by system failures. A decision is pending on the proposal.

**4. Upcoming Issues- 2001 Crop Year****Cooperative Selling**

On June 30, 2000, the Standard Reinsurance Agreement was amended to incorporate section 1508(b)(5)(B) of the Federal Crop Insurance Act, as amended by the Agriculture Risk Protection Act of 2000 (“Act”). Under section 1508(b)(5)(B) of the Act, if permitted by state law, a cooperative or trade association that receives a licensing fee or other payment from an insurance provider, may return all or part of the fee or payment to policyholders who purchase catastrophic risk protection insurance (CAT) or additional coverage in those states where the practice is permitted by state law. Under these arrangements, CAT fees may also be paid on the behalf of policyholders in the

states in which rebating practices are permitted as well as in adjoining states. A Manager's Bulletin, recently drafted to address compliance with the Act, is undergoing legal sufficiency clearance.

**Energy Issues-Irrigation Water and Power Shortages:**

RMA has been working with the Regional Offices and producer groups to identify the issues associated with irrigation water and power shortages for the coming crop year. RMA has drafted a bulletin to address insuring and indemnifying producers who are impacted by these potential shortages.

RMA is also closely watching the impact of increased costs, particularly fertilizer, as they relate to acceptable farming practices. There is concern that with input costs on the rise, some farmers may cede production risks on to their crop insurance policies through reduced application of fertilizer, reduced tillage to save fuel, etc. RMA will continue to monitor this issue throughout the growing season and will remind producers and their representatives of the policy requirement to carry out good farming practices as needed.

Attachments

## **INFORMATIONAL ITEM**

### **Localized Prevented Planting Study**

#### **Background:**

The Federal Crop Insurance Corporation (FCIC) Board of Directors approved a resolution to conduct a study of localized prevented planting problems. The Federal Crop Insurance Act requires the Corporation to limit prevented planting payments for producers to those situations in which other producers, in the area are also generally affected by the conditions that prevented planting. Additionally, the definition of Prevented Planting, contained within the Common Crop Insurance Policy Basic Provisions, 7 CFR 457.8 states: “. . . You must have been prevented from planting the insured crop due to an insured cause of loss that is general in the surrounding area and that prevents other producers from planting acreage with similar characteristics.”

#### **Status:**

The Risk Management Agency has drafted a Statement of Work to contract for the prevented planting study. This statement of work requires the contractor to conduct a study to determine the nature of the localized prevented planting, determine if such localized prevented planting is insurable based on the Federal Crop Insurance Act, and to determine if current policy and procedure accurately address the issue, or if not, to recommend changes necessary.

The Statement of Work is in the Research and Development concurrence process and comments are expected by March 30, 2001.

It is expected that the Statement of Work will be sent to the contracting officials the week of April 2, 2001, for seeking bids for this study.

# **INFORMATIONAL ITEM**

## **Forage Seed**

### **Background:**

The Federal Crop Insurance Corporation (FCIC) Board of Directors approved a resolution to conditionally approve the pilot program for Forage Seed pending resolution of the 17 issues raised by one of the five expert reviewers. The board reserved the right to finally approve this program pending the resolution of these issues.

### **Status:**

- The 17 issues were discussed with the contract reviewer of record on March 20, 2001. Agreement was reached on most of the issues. A follow up meeting to finalize these discussions will be held on March 29, 2001.
- The resulting Board package, including the changes to the policy based on the discussions with the contract reviewer, will be sent to the Office of General Counsel by April 3, 2001 in preparation for full consideration by the Board of Directors.
- The earliest sales closing date is September 30, 2001 for 5 states, and October 31 in two other states. Final Board approval will be sought by early May to facilitate an orderly actuarial filing process and allow for adequate training by insurance providers and agents.

## **INFORMATIONAL ITEM**

### **Subpart V Regulation Submission of Policies, Provisions of Policies and Rates of Premium**

The Agricultural Risk Protection Act of 2000, (ARPA) added provisions to the Federal Crop Insurance Act that provide for the reimbursement of research, development and maintenance costs incurred by private parties in developing and maintaining insurance products that are approved by the Federal Crop Insurance Board of Directors under Section 508(h) of the Act. To fully implement these changes the Risk Management Agency was required to revise its regulations governing the Submission of Policies, Provisions of Policies and Rates of premium. This regulation is found at 7 C.F.R. Subpart V.

Several changes were made to Subpart V as a result of ARPA 2000. These changes are:

1. Allows applicants of approved 508(h) products to be reimbursed by FCIC for research and development and maintenance costs. Consistent with the ARPA changes the draft regulation contains provisions for policies developed prior to passage of ARPA and those submitted and approved after passage of ARPA.
2. Sets forth requirements for the establishment, by the Board, of a group of independent reviewers who will review all submissions under section 508(h) to determine if the submission is in compliance with the Act.
3. Establishes deadlines by which the Board must approve or disapprove a submission or negotiate deadline extensions with the applicant of the submission.
4. Allows applicants to give FCIC the approved submission to maintain at some point in time after approval by the Board.

A section regarding Non-Reinsured Supplemental Policies was also added to Subpart V in order to add structure and accountability to the review of these policies, as well as to provide timelines to the supplemental policy review process. Non-Reinsured Supplemental Policies provide add on coverage to an underlying federally reinsured crop insurance policy and are usually developed by companies reinsured by FCIC

#### **Status of Subpart V Regulation**

- A copy of Subpart V was forwarded to the Office of General Council for legal review on February 2, 2001.
- The Cost Benefit Analysis was completed and is in the Research and Development concurrence process as of March 12.