



United States
Department of
Agriculture

Risk
Management
Agency

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July 24, 2006

INFORMATIONAL MEMORANDUM

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

FROM: Craig A. Witt, Director /s/ *Craig A. Witt*
Reinsurance Services Division

SUBJECT: Alternative User Fee Notification to Approved Insurance Providers

On February 15, 2006, Iowa Agricultural Insurance Innovations, L.L.C. (IAII), the developer and owner of Livestock Gross Margin (LGM), and Applied Analytics Group, Inc. (AAG), the developer and owner of Livestock Risk Protection (LRP) were approved by the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) to charge a user fee of \$200 per LGM policy earning premium and \$65 per LRP policy earning premium to approved insurance providers (AIP) selling LGM and LRP.

On July 13, 2006, IAII requested Board approval of an alternative user fee based on \$0.0167 per premium dollar sold, and AAG requested Board approval of an alternative user fee based on \$0.0425 per premium dollar sold. IAII and AAG have the option of charging approved insurance providers the alternative user fee or the fee per policy that was previously approved by the Board. The alternative user fee was proposed after determining that the previously approved user fees may have a negative impact on future sales of LGM and LRP policies in some instances.

Section 522(b)(4)(D)(ii) of the Act and 7 C.F.R. 400.712(j)(4) state that the Board will approve the amount of user fee that is payable to the applicant by approved insurance providers unless the Board determines that the user fee charged: (1) is unreasonable in relation to the maintenance costs associated with the policy or plan of insurance; or (2) unnecessarily inhibits the use of the policy or plan of insurance by other approved insurance providers. Section 400.712(j)(5) states that reasonableness of the user fees will be determined by the Board based on a comparison with the amount of reimbursement for maintenance previously received, the number of policies, the number of approved insurance providers, and the expected total amount of user fees to be received in any reinsurance year.

The Board determined that the amount generated by the alternative user fees is not unreasonable in relation to the maintenance costs associated with the policy and are necessary to cover the cost of maintaining these policies. Therefore, charging the

The Risk Management Agency Administrators
And Oversees All Programs Authorized Under
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alternative user fees will not unnecessarily inhibit the use of the policy. However, the Board has reserved the right to revisit these user fees in future years to ensure that these standards continue to be met. The user fee is owed by the AIP's and cannot be passed on to producers as an increase in premium or an administrative charge.

Section 400.712(j)(1)(i) states, "...It is the sole responsibility of the applicant to collect such fees from the approved insurance providers and any indebtedness for such fees must be resolved by the applicant and approved insurance provider. Applicants may request that FCIC provide the number of policies sold by each approved insurance provider." The specific premium writings of each AIP is confidential business information that will not be provided by FCIC, unless FCIC is specifically authorized in writing by an AIP to provide such information to the owners of LGM and/or LRP on their behalf. IAI and AAG will have to negotiate and collect premium information directly from the AIP's. AIP's must choose one user fee reimbursement method that will apply to all livestock policies sold, either a flat amount per policy or a percentage of premium dollar sold each reinsurance year. AIPs will not be allowed to pick and choose, by policy, the method of user fee payment. Failure to timely pay the user fees will result in the suspension or termination of the AIP's ability to write any new LGM or LRP policies and existing policies must be cancelled by the applicable cancellation date.

If an AIP wishes to negotiate with the owners of LGM and LRP the ability to pay the alternative user fee rather than the flat dollar amount previously approved by the Board they may contact the following:

For LGM: Dr. Bruce Babcock
Iowa Agricultural Innovations

For LRP: Dr. Peter Griffin
Applied Analytics Group

If you have any questions regarding the user fees, please contact your Reinsurance Services Account Representative.