



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

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DATE: September 25, 2008

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2962

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), for the September 22, 2008, meeting.

Regulatory Update

Common Crop Insurance Policy and Group Risk Protection Basic Provisions

The Product Administration and Standards Division (PASD) is working on an interim rule to implement program changes mandated by the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). These changes include: 1) a new organic crop definition; 2) enterprise and whole-farm unit changes; 3) crop production on native sod; and 4) claims settlement on farm-stored production. The Risk Management Agency (RMA) plans to have the interim rule published so it will take effect beginning with the 2009 spring crops.

Apple Crop Provisions

The proposed rule is in PASD's concurrence process. The proposed rule contains changes to the Optional Coverage for Fresh Fruit Quality Adjustment and changes requested by apple producers and the apple industry. RMA plans to have the final rule published for the 2010 crop year.

Dry Pea Crop Provisions

The Dry Pea Crop Provisions final rule was published in the *Federal Register* on September 4. The final rule provides coverage for fall-planted, dry peas and allows policyholders to select different coverage levels and price-election percentages by dry-pea type. Coverage is available for the 2009 crop year.

Program Highlights/Announcements

Hurricanes Gustav and Ike

Two major hurricanes struck the Gulf Coast in September 2008. The first, Hurricane Gustav, made landfall in Louisiana. It rained from 11 to 18 inches in East Louisiana and from 3.75 to 8 inches in West Louisiana. The majority of Louisiana's agriculture is located in the eastern part of the State. FEMA declared 33 counties as disaster areas.

Insurance company area claims supervisors have said that it will take 3 to 4 weeks to see the full impact of crop losses in Louisiana. Jackson Regional Office (RO) Director, Rock Davis, met with State and Federal officials on September 11, to discuss the damage from Hurricane Gustav. The Federal Government declared an emergency in all 82 counties in Mississippi. This declaration will allow debris removal.

The second hurricane, Ike, made landfall off Texas' coast on September 13. Ike then traveled quickly across the Midwest and into Canada. The Oklahoma City RO is assessing the degree of crop damage in the area. The RO has received three Large Claim Notices for nursery damage in the Texas Coastal Bend area, as of September 16. Flooding was reported in Louisiana. The Jackson RO is assessing the damage. RMA is working with all areas of government in assessing the damage done by both hurricanes.

2008 Farm Bill Highlights

Subpart V – Submission Regulation

PASD is preparing a final rule that will remove all references to premium reduction plans, under Section 508(h) of the Federal Crop Insurance Act.

Supplemental Revenue Assistance

RMA and FSA are working together to effectively administer the Supplemental Revenue Assistance Payment (SURE) program. RMA's Office of Product Management and the Farm Service Agency (FSA) are discussing RMA's programs and FSA's potential data needs in task force meetings. In this program, producers who wish to participate in new disaster programs must meet a risk-management, purchase requirement by obtaining at least the catastrophic level of crop insurance coverage for all insurable crops and non-insured crop disaster assistance coverage for all non-insurable crops for all farms in all counties in which they have an interest.

Grain Sorghum Pricing Methodology

On September 10, two separate solicitations were posted for economists to develop a grain sorghum pricing methodology. The first solicitation requires the first group of economists to be from the grain sorghum industry. The second solicitation requires the second group of economists to be from institutions of higher learning. The solicitations close September 24.

Information Technology Update

RMA is planning the development of its next information technology system, using funding and guidance from the 2008 Farm Bill. RMA has refocused and renamed the former eWA project. The new ITM (Information Technology Modernization) project will redesign the crop insurance processing system that RMA will use for at least the next 10 years. ITM will expand on what RMA learned in eWA and will be able to improve processes within the crop insurance program. The project team has outlined its strategic goals and is working on several important issues that need resolution before the project is able to move forward. The project team expects to resolve these issues shortly.

Other Program Announcements /Highlights

Agriculture Secretary Schafer Announces Appointments to the Federal Crop Insurance Corporation Board of Directors

On September 15, Secretary Schafer announced the appointments of Susan C. Rogers and James C. Nickel to the FCIC Board of Directors. Susan and James will serve 4-year appointments that will end on September 5, 2012. Also, Luis Monterde and Mike Pickens were reappointed, and their terms will end on October 19, 2012.

Three New Federal Crop Insurance Providers for the 2009 Reinsurance Year

RMA approved the Standard Reinsurance Agreement (SRA) for Hudson Insurance Company, the Insurance Company of the State of Pennsylvania, and the Livestock Price Reinsurance Agreement for Casualty Underwriters Insurance Company.

There are 17 approved insurance providers participating in the 2009 Federal Crop Insurance Program. More information about the complete list of insurance providers can be found on RMA's Web site at: <http://www3.rma.usda.gov/tools/agents/companies/indexCI.cfm>

The Effects of Climate Change on Agriculture, Land Resources, Water Resources, and Biodiversity in the United States

The RMA Global Change Task Force Representative attended *The Effects of Climate Change on Agriculture, Land Resources, Water Resources, and Biodiversity in the United States Seminar* on September 16, in Washington, DC. The seminar highlighted findings on climate change and the implications for the United States Department of Agriculture (USDA) from a newly issued report, "The Effects of Climate Change on Agriculture, Land Resources, Water Resources, and Biodiversity in the United States." A separate briefing was held for USDA Agency Administrators. The Cooperative State Research, Education, and Extension Service is planning a public stakeholder meeting in October.

This report highlights the impacts of climate change on agriculture. Longer growing seasons, adaptation issues, and earlier onset of spring by 10-14 days in areas of the United States are just a few of the impacts the authors discussed. To access the tools RMA is supporting to manage drought risks, please visit RMA's Web site at:

http://www.usda.gov/oce/global_change/files/SAP4_3/RMA_FactSheet_1.pdf. A copy of the USDA Report can be found at: <http://www.rma.usda.gov/news/currentissues/index.html> or on the Global Climate Change Taskforce's web site at: http://www.usda.gov/oce/global_change/sap_2007_FinalReport.htm.

Pasture, Rangeland Forage (PRF), Vegetation Index and Rainfall Index Pilot Programs, and Vegetation-Index Apiculture and Rainfall-Index Apiculture Pilot Programs

Manager's Bulletin MGR-08-042 notified Insurance Providers and producers that RMA released the Apiculture pilot insurance programs and insurance is available. RMA also released policy materials, new handbooks, and decision tools to support the Vegetation Index and Rainfall Index programs for PRF and Apiculture. The Apiculture pilot programs are 508(h) private submissions. RMA expanded the PRF program into several new states for the 2009 crop year.

FSA provided a 3-hour presentation, with RMA's assistance, on PRF during their national training meeting on the 2008 Farm Bill the week of September 15. PRF is relevant to the SURE program's risk management purchase requirement.

Pasture, Rangeland Forage Insurance 2007 Crop Year Results

RMA has analyzed the 2007 PRF Rainfall Index and PRF Vegetation Index results. The PRF Rainfall Index pilot program insured 25 percent of the potential acres in the pilot area. Producers insured 24,523,698 acres out of 99,524,654 potential acres. The private insurance companies and RMA covered \$326,053,354 in liability and paid \$40,471,997 in indemnities for all six Index Intervals. 2007's loss ratio was 0.64.

The PRF Vegetation Index pilot program insured 7 percent of the potential acres in the pilot area. Producers insured 3,959,991 acres out of 59,725,798 potential acres. The private insurance companies and RMA covered \$61,631,079 in liability and paid \$3,430,249 in indemnities for all four Index Intervals. 2007's loss ratio was 0.49.

Program Concerns

The Risk Management Services Division (RMSD) trained RO personnel the week of August 4. RMSD is preparing RO personnel to spot-check 2008 Nursery policies and underlying plant inventory records that verify a grower's compliance or non-compliance with Manager's Bulletin, MGR-08-003, *Documentation to Support Nursery Plant Inventory Value Report and Claims for Indemnity*. This review will determine whether records are available to support Plant Inventory Value Reports (PIVR).

Loss Adjuster Licensing

RMA met with the National Association of Insurance Commissioners' Crop Insurance Working Group. Both parties agreed that there is a need for procedural changes to the SRA that will include crop adjuster proficiency tests for those states requiring crop adjusters to obtain a Property & Casualty license. RMA has drafted a proposed SRA amendment, currently under review that will modify state, loss-adjuster, licensing requirements for crop-insurance adjusters.

Compliance Announcements /Highlights

RV Warren Farms Recovery

On September 11, the US Attorney's Office for the Western District of North Carolina notified RMA's Compliance Office that, in the Robert and Viki Warren case, US Marshals had liquidated several additional properties and had transferred \$3.3 million to the Clerk of Court for the Western District. Because RMA was identified as "the Victim" in the criminal judgment and subsequent amended criminal judgment, the Assistant US Attorney (AUSA) is transferring this money to RMA's Insurance Fund. The AUSA said that additional properties have not been liquidated yet and RMA can expect additional payments. The total judgment in this case was \$9.15 million.

Fall, Spot-Check Lists (SCL) Distributed to FSA

On September 1, RMA's Compliance offices sent the fall-seeded SCL to FSA. RMA has started to segregate the lists into spring and fall checks to provide FSA with an opportunity to review crops in the field. Before, RMA issued the entire list in the spring and FSA could not carry out effective

inspections of crops seeded in the fall. The current procedures require additional time between when listed producers are identified and when they are actually checked. However, RMA and FSA agree the process is more effective than in the past.

FSA Crop Disaster Program Referrals

As of August 1, FSA has sent **5,883** Crop Disaster Program referrals to RMA for the 2005 through 2007 crop years. About half of these referrals are from reported-entity discrepancies between FSA and RMA. Producers often structure their operations to maximize FSA benefits, but fail to amend their entity structure on their crop insurance policy. In some cases a producer's policy can be voided. RMA issued Manager's Bulletin MGR-08-008, *Correction of Named Insureds* (Dated June 4, 2008), to provide certain relief for the 2006 and 2007 crop years. This does not address those producers who changed entities in 2005 or earlier and failed to correct their crop insurance identification.

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