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**USDA**



**Risk  
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**Product  
Development  
Division**

**FCIC 24190 (04/06)**

**2006  
CHERRY PILOT  
PROGRAM  
INSURANCE  
UNDERWRITING  
GUIDE**

Underwriting Standards for Catastrophic (CAT)  
and Additional Coverage Multiple Peril Crop  
Insurance (MPCI) Contracts

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UNITED STATES DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250

<b>FEDERAL CROP INSURANCE CORPORATION DIRECTIVE</b>		<b>NUMBER: 24190 (04-06)</b>
<b>SUBJECT:</b>  <b>CHERRY PILOT PROGRAM INSURANCE UNDERWRITING GUIDE 2006 AND SUCCEEDING CROP YEARS</b>	<b>DATE:</b> April 2006	
	<b>OPI:</b> Product Development Division	
	<b>APPROVED:</b> <b>/S/ Tim B. Witt</b> Deputy Administrator, Research and Development	

This underwriting guide contains the official FCIC approved underwriting instructions under policy 01-057 for 2006 and succeeding crop years. The instructions in this guide are effective upon issuance and are not retroactive to any previous crop year determinations completed prior to the approval date of this guide. All reinsured companies will utilize these standards for both underwriting and training unless a company has developed and FCIC has approved procedures applicable for that company.

**1. PURPOSE**

To provide instructions for establishing crop insurance coverage in accordance with the Cherry Pilot Program Crop Provisions (01-057), and as a supplement to the Crop Insurance Handbook (FCIC 18010).

**2. STANDARDS AND INSTRUCTIONS**

**A. OPERATIONAL REFERENCES.**

In general, the FCIC 18010 Crop Insurance Handbook (CIH) applies to the Cherry Pilot Program insurance program. Exceptions, changes, and additions are prescribed by this guide.

All procedures, rules, and requirements for Category D crops apply to cherries, and are supplemented with additional instructions in this underwriting guide.

**NOTE: IF A CONFLICT EXISTS BETWEEN THE LANGUAGE OF THIS GUIDE AND THE CROP INSURANCE HANDBOOK (CIH), LOSS ADJUSTMENT MANUAL (LAM), OR THE CHERRY PILOT PROGRAM LOSS ADJUSTMENT STANDARDS**

**HANDBOOK (LASH), THE LANGUAGE OF THIS GUIDE WILL CONTROL.****B. OVERVIEW OF CHANGES**

Listed below is a brief overview of the changes that have the most significant impact. Not all changes, including typographical errors and minor corrections are listed.

- Page: 6      Sec. 3(D)(2)(e) Added language to clarify instructions on PAW.
- Page(s): 8-10      Sec. 3(H)(3) Clarified language on units.  
Sec. 3(H)(6), (7), and (9) Added language for change in minimum insurability requirement.

**C. CANCELLATION**

- (1) Effective Date. Upon approval.
- (2) Replaces. Cherry New Pilot Underwriting Guide issued August 2000.
- (3) Filing Instructions.

Remove

Entire Underwriting Guide

Insert

New Underwriting Guide

**DISTRIBUTION:** RMA Deputy Administrators, Directors, Branch Chiefs, Washington, D.C., and Kansas City; RMA Regional and Risk Compliance Offices; National Appeals Division (NAD); Reinsured Companies, and National Crop Insurance Services (NCIS).

**3. CROP INSURANCE HANDBOOK**

Changes and additions to the FCIC 18010 Crop Insurance Handbook (CIH) for the Cherry Pilot Program are described in this section.

**A GENERAL RULES**

The FCIC 18010 Crop Insurance Handbook (CIH), in general, applies to cherries.

- (1) The Cherry Pilot program is a Category D plan crop.
- (2) The changes/additions/references to the CIH described here apply to cherries in the sections noted.

**B SECTIONS 1 – 3**

Sections 1 - 3 of the CIH apply to cherries except where related to APH yield reporting or approval processes for other than Category D crops, unless related to instructions provided below. [e.g., definition of Production Reporting Date (PRD) applies as related to 5B4].

**C (NACAT → CHERRY MINIMUM VALUE OPTION, FCIC approved Cherry Minimum Value Option.**

- (1) Permits the insured to select either Option I or Option II of the Minimum Value Option for cherry types designated in the Special Provisions of Insurance (SPOI) and for which the actuarial table provides rates.
- (2) If an option is elected, new insureds must elect the option on their application. If a carryover insured, the option must be elected on a contract change form and submitted on or before the sales closing date for the initial crop year in which the insured wishes the option to be effective. This is a continuous option and may be canceled in accordance with the cancellation provisions in the policy. Cancellation dates are given by the Cherry Pilot Crop Provisions.
- (3) FCIC approved Cherry Pilot Crop Provisions must be in force and all the terms and conditions of the policy adhered to.
- (4) Option I and II of the Minimum Value Option allow the total value of the harvested production to be determined as follows:
  - (a) For sold production, the dollar amount obtained by subtracting the allowable cost contained in the SPOI from the average net price received for each pound of cherries (this result may not be less than the minimum value option price contained in the SPOI for any pound of cherries), and multiplying this result by the pounds of cherries sold; and
  - (b) For marketable production that is not sold, the dollar amount obtained by multiplying the pounds of such cherries on the unit by the minimum value shown on the SPOI that applies without regard to the choice of the minimum value option. Harvested production that is damaged or defective due to insurable causes and is not marketable will not be counted as production.  
**←NACAT)**

## **D UNDERWRITING & APH RESPONSIBILITIES**

Procedures for perennial crops in Sections 5 and 7 of the FCIC CIH that refer to establishing and verifying individual yield histories are generally not applicable to cherries. The producer's self-certified highest yield(s) must be validated to ensure acreage (unit) meets the initial insurability production requirement and coverage is limited by the coverage limitation provision, where applicable. Differences are itemized below and indicated on the CIH Procedure Comparison & Reference Guide. The following procedures are to be used in conjunction with and in addition to the referenced paragraphs contained in the indicated sections of the CIH. Not applicable = NA.

- (1) UNDERWRITING & APH RESPONSIBILITIES – CIH SECTION 5
  - (a) 5A (1) Inform applicants/insureds of requirement to provide information for policy underwriting.
  - (b) 5A (9) Applies.
  - (c) 5B (4) Applies.
  - (d) 5D (6) Applies.

- (2) CATEGORY C APH CROPS (PERENNIAL CROPS) – CIH SECTION 7
- (a) 7D(4) Applies
  - (b) Blocks consisting of 100% cherry trees or a mixture of producing, young, dead or missing cherry trees shall be measured according to procedure in the CIH.
  - (c) Blocks of cherry trees primarily, with other significant amounts of apple, pear, or peach trees, etc.; use net acres for measurement of the block if the other tree crop acreage is 10% or greater. (See 4(b)(1).
  - (d) 7E Producer's Pre-Acceptance Worksheet (PAW) - Required (See CIH Section 7E for instructions).
  - (e) Completion Instructions. All CIH instructions for PAW completion that are not related to APH apply. The following supplemental instructions also apply.

Item No. (10):

Instructions relating to the APH block production are NA for cherries. Certification of information by block is necessary to document differences in planting date, type, variety and rootstock, etc. List uninsurable block(s) on separate line(s) as needed. For example: Blocks 1-3 are similar and planted in 1994 – these may be recorded on one line or on multiple lines. Block 4 is similar type/variety & rootstock and entered on separate line since planted in 2000. Blocks 5 & 6 are similar type/variety & rootstock and planted in 2005 – these may be recorded on one line or on multiple lines.

Item No. (13):

Enter both the variety and rootstock.

Item No. (20):

Insurability requirements are specified on the SPOI.

Item No. (21):

Enter the highest yield (pounds per acre) during one of the most recent three years (five years in Michigan and Utah). The producer's self-certified highest yields must be validated to ensure acreage (units) meets the initial insurability production requirement and coverage is limited by the coverage limitation provision, where applicable.

Item No. (22):

Relate this question to the entries in column 21.

Item No. (25):

CERTIFICATION STATEMENT: Edit the second sentence by striking 'may result in a recomputation of the approved APH yield' and inserting 'may result in an adjusted amount of insurance per acre or a declaration of uninsurable'.

**E 7F PRE-ACCEPTANCE FIELD INSPECTIONS.**

- (1) Instructions for APH and/or RMA/RSO yield determination in this section are not applicable.

- (2) 7F(1)(a) Applies.  
7F ( 1)(c) 1, 2, 3 Apply.
- (3) 7F(1)(d) Applies to the extent an inspection is required if the most recent pre-acceptance field inspection has not been completed within the last five years (e.g. for 2006, new inspections are required if the most recent inspection is 2000 or earlier).
- (4) 7F(2) Pre-Acceptance Field Inspection Selection Criteria and RMA RO Approved Yield Calculation Criteria
- (a) F(2)(c) through F(2)(e) apply.  
In addition to (c) through (e):
- (b) F(2)(g) The percent stand reported by the producer (column 17 of the FCI-12-PAW) is less than 80 percent in Michigan, Montana, Oregon, and Washington.
- (c) F(2)(h) The approved insurance provider (AIP) may conduct additional inspections on orchards with fewer than 5 acres (up to 10 percent of the policies).
- (d) If selected for field inspection by the above criteria, a new inspection is required only if the most recent pre-acceptance field inspection is more than FIVE years old, except when F(2)(c), (d),(e) and (f) apply.
- (5) 7F(5) Time Frames for Inspection. 7F(5)(a) Inspectors must complete orchard inspections and forward all documents to AIPs by 30 calendar days after the PRD.

**F 7G PRE-ACCEPTANCE PERENNIAL CROP INSPECTION REPORT and CROP ADDENDUM WORKSHEET (FCI-12-P).**

- (1) Instructions for APH and/or yield determination are NA for cherries. Otherwise instructions for PAW are applicable.
- (2) Item No. (27)  
Change column headings in A.(1) to Less Than 40%, 40 - 59%, 60 - 79%, and 80 - 100%. Rows A.(2) and (3) are NA.
- (3) Item No. (29)  
Use yield shown in Block 21 of the PAW when determining vigor. If the Block 21 yield is not a reasonably expected average yield for age and management of the orchard, further explanation should be provided.
- (4) Crop Addendum Worksheets  
Use the Almond Crop Addendum Worksheet (1H Exhibit 16Almond/Citrus/Figs/Fresh Plums/Macadamia Nuts/Pecans/Prunes/Stonefruit/Walnuts).
- (5) 1H Item No. (13)  
Describe the varietal planting pattern.

**G 7H - 7L: NA for Cherries.**

**H CATEGORY D, DOLLAR PLAN CROPS – CIH SECTION 8**

- (1) 8 A(1) **Eligible Crops:** Cherries, . . . .(See instructions in Section 7(D) - (G) of the CIH which apply for cherries).

- (2) **8 A(2) Plan Description.**  
This plan offers the producer the opportunity to select one of several dollar amounts of insurance per acre. The available coverage elections and the rates are indicated on the actuarial table. Use any maps or supplemental listings included in the actuarial materials to determine the coverage options and premium rates.

- (3) **Units:**

**BASIC UNITS:** Refer to Basic Provisions. Unless limited by the Special Provisions, any basic unit may be divided into one or more optional units.

**(NACAT => OPTIONAL UNITS:** Optional units may be available for such considerations as:

section, section equivalent or Farm Serial Number  
practice (Irrigated vs. Non-Irrigated)  
non-contiguous land

Refer to Basic Provisions, Crop Provisions and Special Provisions for information and determination.

APH production reports are not required to qualify for optional units. However, for each proposed optional unit, the insured must provide acceptable written verifiable records of cherry production as needed for at least the most recent crop year. **<=NACAT)**

- (4) **Insurability and Coverage Limitation:** Upon request, the insured must provide written verifiable records of cherry acreage and production to validate yields for insurability and coverage limitation purposes.
- (5) **8A(2)(c) Supporting Evidence for Use When Verifying if Acreage Meets the Minimum Production Requirements for Insurability and Determining Adjusted Amount of Insurance:**

**Acceptable Supporting Documentation of Prior Production.**

Cooperative pool statements, pool summary statements, receipts from packing houses, processors, or other buyers showing quantities (delivered and sold) and preharvest estimates of production certified by neutral third parties not involved in the insurance contract are acceptable supporting documentation. For direct sales to consumers, a complete daily accounting of harvested production is acceptable to verify the amount of production. Pick records are acceptable only if they meet the criteria outlined in the CIH in Section 10C(4).

**Section 10E Use of Another Producer's Acreage and Production History,** applies with the following change:

**Prior producer acceptable hard copy records of acreage and production may be used to establish insurability and the amount of production, whether or not that producer continues to share in the crop.**

**Acreage:** The same as that used for reporting acreage for insurability, according to CIH, Section 7D (4).

- (6) **8A(2)(d) For 2006, the SPOI's were changed to specify both a minimum insurability requirement (there may be a minimum production requirement and/or a minimum age requirement-- see SPOI's for details that may vary**



by county) and a subsequent 'reduced yield' guarantee reduction application. The 'reduced yield' application is annually used on insurable acreage by block or unit, as applicable, based on verifiable certified past production records. It compares the highest yield in recent years to Upper and Lower Yield Limits shown on the SPOI (years and yield limits may vary by county).

(a) If the insured produces at least the Upper Yield Limit (e.g., 6000 pounds) in the recent years specified in the SPOI, the amount of insurance remains unadjusted. The reduced yield 'Guarantee Reduction Factor' will be 1.000.

(b) If the insured certifies that the highest yield produced (e.g. 4000 lbs) in the specified recent years is between the upper yield limit (e.g., 6000 pounds) and the lower yield limit (e.g., 3000 lbs), the adjusted amount of insurance will be equal to the elected amount of insurance (e.g., \$2,300) times the guarantee reduction factor. The reduced yield 'Guarantee Reduction Factor' in this case will be equal to the ratio of your highest per acre production (4000 lbs/acre) divided by the upper yield limit (6000 lbs/acre).

$$\text{Reduced amount of insurance} = \$2,300 \times .667 (4000/6000) = \$1534$$

(c) If the highest yield in recent years for a block or unit falls below the specified Lower Yield Limit, the reduced yield 'Guarantee Reduction Factor' will be 0.00 and the acreage is uninsurable until a yield equal to or greater than the Lower Yield Limit is again produced on the acreage.

(7) 8A(2)(e) The 'reduced yield' guarantee reduction factor will not apply to any acreage that has not completed 6 growing seasons after being initially set out or grafted.

(8) 8A(2)(f) In Michigan, Montana, Oregon and Washington the amount of insurance available is limited for blocks or units where live trees based on the initial (or acceptable adjusted) planting density occupy less than 80 percent of the block or unit acreage (item 27 of insured's Pre-Acceptance Perennial Crop Inspection Report ). An example of an acceptable adjusted planting density is when the insured initially planted with 20 feet between rows and 10 feet tree spacing within rows and removed every other tree in the 7th year as the trees became crowded; i.e. the planting density is adjusted from 218 trees per acre (43,560 divided by 20 divided by 10) to 109 trees per acre (43,560 divided by 20 divided by 20). For blocks or units with reduced plant density, coverage is limited during acreage reporting by using the reduced stand 'Guarantee Reduction Factor' shown below:

<u>Percent Stand</u>	<u>Selected Coverage Level (%)</u>	<u>Guarantee Reduction Factor</u>
80 to 100	50 to 75	1.000
60 to 79	75	0.867
	70	0.929
	50 to 65	1.000

40 to 59	75	.667
	70	.714
	65	.769
	60	.833
	55	.909
	50	1.000
Less than 40	50 to 75	Uninsurable

(For California and Utah, the low yield Guarantee Reduction Factor will always be 1.000 because Percent Stand limitations do not apply). Companies should report the Guarantee Reduction Factor in the Guarantee Reduction Field in the 11 record. For DAS purposes, report 1.000 as 000 because there are only three digits in the Guarantee Reduction Field and it will be edited to 1.000.

- (9) 8A(2)(g) For situations with BOTH 'reduced guarantee' AND 'stand reduction' adjustments, the lowest guarantee reduction factor applies.
- (10) 8A(2)(h) Any acreage of sweet cherries is determined to be grown for fresh market if the acreage consists of at least 66% fresh marketable varieties intended to be harvested and delivered for fresh market at the time acreage is reported for insurance (tree count basis) OR if at least 66% of the production from the acreage is expected to be harvested for fresh market (verifiable by current year production contract or historical records of delivery for fresh market purposes. (NOT APPLICABLE IN MICHIGAN).

Acreage of sweet cherries not meeting the above guidelines is not determined to be for fresh market. AIPs should instruct agents to advise prospective insureds of the above determination for insurability and acreage reporting purposes.

**I CIH Sections 9, 10, & 14 DO NOT APPLY TO CHERRIES EXCEPT AS REFERENCED ABOVE.**

#### 4. CIH PROCEDURE COMPARISON & REFERENCE GUIDE

APH (MPCI)	CHERRIES	CIH REFERENCES
Approved Yields	No	Not Applicable (NA)
Preliminary Yields	No	NA
Acreage Determinations	Yes	See CIH Sec 7D(4)
Base Periods	No	NA
Production Reports by Unit (Basic or Optional)	No	NA
Separate APH by P/T/V	No	NA
Separate APH by Map Area	No	NA
“T” Yields (FCI-35)	No	NA
Variable T Yield	No	NA
Assigned Yields	No	NA
Temporary Yields	No	NA
Block Production Worksheets & Unit Summary Worksheets	No	NA
Yield Descriptors	No	NA
Cups, Caps, Yield Floors	No	NA
High-Risk Land Exclusion	No	NA
Added Insurable Acres	No	NA
Added Land	No	NA
Production Reporting Date	Yes (For PAW)	NA(See CIH SEC 7E - like PAW)
Use of Another Producer’s Records	Yes (As modified)	See CIH Sec 10E
Producer’s Pre-Acceptance Worksheet	Yes	See CIH Sec 7E and Separate Instructions by Crop
Pre-Acceptance Perennial Crop Field Inspection	Yes	See CIH Sec 7F/G and Separate Instructions by Crop
Crop Addendum	Yes	See CIH Sec 7G, Exhibit 16 and Separate Instructions by Crop
Mutual Consent Cancellation	No	NA
Liability Limitations	Yes	See Section 8A(2)(g) insert for Cherries
Separate Instructions by Crop	Yes	See attached Premium Calculation Example

## 5. Example Premium Calculation On Unit Basis

### CHERRY DOLLAR PLAN

#### Base Premium

1. **Enter the selected Fixed Dollar Amount of Insurance**, from the actuarial document (Assume \$2,100 per acre) \$2,100
2. **Enter the selected Coverage Level**, corresponding with the selected amount of insurance (.75, .70, .65, .60, .55, or .50). .75
3. **Enter the applicable Guarantee Reduction Factor**, based on the percent stand of live trees listed in the underwriting guide or recent reduced yield 'Guarantee Reduction' Factor, the lowest guarantee factor applies. Assume 65% stand and .75 coverage level, use 0.867 and the highest yield exceeds the upper yield limit. (The Guarantee Reduction Factor may not exceed 1.000. In California and Utah, the Percent Stand Guarantee Reduction Factor will always equal 1.00.). 0.867
4. **Enter the Base Premium Rate**, for the selected coverage level (item 2). 0.050
5. **Enter the Insurable Acres**, for the appropriate type and practice. 100
6. **Enter the Crop Share**, for the acreage. 1.000
7. **Calculate the Reduced Amount of Insurance (liability per acre)**, item 1 times item 3. ( $\$2,100 \times 0.867$ ) \$1,821
8. **Calculate the total Base Premium**, item 7 times item 4 times item 5 times item 6. ( $\$1,821 \times .050 \times 100 \times 1.000$ ) \$9,105

#### Producer Premium:

9. **Enter one minus the Premium Subsidy Factor** from the Subsidy and Fee Table on the FCI-35 corresponding to the selected coverage level ( $1.00 - 0.55 = 0.45$ ) 0.45
10. **Calculate the Estimated Producer Premium**, determined by multiplying item 8 times item 9. ( $\$9,105 \times 0.45$ ) \$4,097

*This worksheet is intended to assist only in estimating Producer Premium.*