



TO: Board of Directors
Federal Crop Insurance Corporation

November 15, 2001

United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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

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

SUBJECT: Board Memorandum No. 634
Docket No. CI-LRP-01-3
Pilot Livestock Risk Protection (LRP) Program for the 2002 Crop Year -
Resubmitted by American Agri-Business Insurance Company (AABIC)

There is submitted for your consideration the subject docket authorizing or not authorizing the pilot Livestock Risk Protection (LRP) program beginning in 2002 as resubmitted by American Agri-Business Insurance Company (AABIC), with reinsurance, risk subsidy, and administrative and operating subsidy. The program is designed to provide price protection against decreases in the slaughter hog price. The pilot area for the LRP program would be three multiple-county areas in Iowa.

Section 508(h) of the Federal Crop Insurance Act (Act) requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance if the interests of producers are adequately protected and the policy is actuarially sound. However, approval of livestock pilot programs are limited to \$10,000,000 cumulative, under section 523(b) of the Act.

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-LRP-01-3.

RESOLVED, That Docket No. CI-LRP-01-3, Exhibit No. 2076, authorizing implementation of the pilot Livestock Risk Protection Program with reinsurance, risk subsidy in an amount equal to _____ of the net book premium, and administrative and operating subsidy in an amount equal to 24.5 percent of the net book premium beginning in 2002 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 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.

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-LRP-01-3, Exhibit No. 2076, 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-LRP-01-3

Pilot Livestock Risk
Protection Program -
2002 Implementation

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

Pilot Livestock Risk Protection Program for 2002 Implementation
Docket No. CI-LRP-01-3

SUMMARY

If approved by the Board, this docket will authorize implementation of the pilot Livestock Risk Protection program with reinsurance, risk subsidy in an amount equal to ___ percent of the net book premium, and administrative and operating subsidy in an amount equal to 24.5 percent of the net book premium beginning in 2002, as authorized under sections 508(h) and 523(b) of the Federal Crop Insurance Act (Act).

FOR FURTHER INFORMATION CONTACT:

Diana Moslak, (202) 720-2832

Pilot Livestock Risk Protection Program for 2002 Implementation
Authorization for Approval or Disapproval
Docket No. CI-LRP-01-3

A - INTRODUCTION

I. Purpose

If approved by the Board, this docket will authorize implementation of the pilot Livestock Risk Protection (LRP) program with reinsurance, risk subsidy in an amount equal to 13 percent of the net book premium, and administrative and operating subsidy in an amount equal to 24.5 percent of the net book premium beginning in 2002, as authorized under sections 508(h) and 523(b) of the Federal Crop Insurance Act (Act).

II. Justification

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 interests of producers are adequately protected and the program is actuarially sound.

III. Background Data – Pilot Livestock Risk Protection Program

The pilot LRP program allows the producer to pay a premium for a specific number of hogs for a time period consistent with his or her own time of marketing and provides downside price protection. AABIC limits the amount of insurance that can be purchased by each producer per year. This does not mean that this product is limited to producers of small operations, only that the number of hogs that can be insured in any given year is limited.

Section 523(b) of the Act contains specific language that allows livestock coverage for “reasonable protection from the financial risks of price or income fluctuations inherent in the production and marketing of livestock.”

The pilot LRP program has no specific sales closing date for implementation purposes and sales can be made at any time for this program. This submission covers slaughter hogs for periods of 90-180 days in thirty-day increments in three selected multi-county areas in Iowa.

Producers would be offered coverage values based on expectations of cash prices at the policy end date. As policies mature, producers are indemnified if the 2-day Agricultural Marketing Service (AMS) price is lower than the insured price. The policy end-date can be any AMS reporting day of the year.

The pilot area AABIC is proposing is located in three multi-county areas in Iowa. The total number of hogs in these counties is estimated at 6 million head. AABIC expects to insure approximately 25 percent of all hogs in this pilot area for a total of 1.5 million hogs and total liability of approximately \$150 million. There will be a mechanism in place to track sales and to suspend sales of the policy if costs reach the amount authorized by the Board.

B - AUTHORIZATION

I. General

Authority to approve the pilot LRP program with reinsurance, risk subsidy, and administrative and operating subsidy beginning in 2002 is contained in sections 508(h) and 523(b) of the Act.

II. Program Description

The pilot LRP policy is designed to offer producers of slaughter hogs price protection against decreases in price for slaughter hogs. LRP is a market-based program with coverage levels and premiums being derived from Chicago Mercantile Exchange data and rate formulas. Policies would be offered in lengths of 90 to 180 days in 30-day increments and could begin on any date.

III. Operating Provisions

The operating provisions for implementing this program are the pilot Livestock Risk Protection Policy Basic Provisions, the Swine Specific Coverage Endorsement, the Application for Registration form, the Application for Specific Coverage Endorsement Form, the Livestock Risk Protection Underwriting Rules, the Livestock Risk Protection Premium Calculation Worksheet, the Agricultural Marketing Service cash index, the Chicago Mercantile Exchange Lean Hog Futures Contracts, actuarial documents, and administrative procedures approved by the Board for RMA to administer the program.

IV. Administration

If approved by the Board, this program may be offered by all insurance companies reinsured by FCIC and will be carried out with the provisions of the Act. Risk subsidy will be provided in accordance with the Act and as determined by the Board. Software to monitor the underwriting capacity for livestock insurance will be developed. 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

Section 523(b) of the Act limits funds for livestock insurance subsidies and other expenses to \$10 million and specifies that at least two livestock products should be made available to producers.

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.

FINAL RESOLUTION

RESOLVED, That Docket No. CI-LRP-01-3, Exhibit No. 2076, authorizing implementation of the pilot Livestock Risk Protection Program with reinsurance, risk subsidy in an amount equal to 13 percent of the net book premium, and administrative and operating subsidy in an amount equal to 24.5 percent of the net book premium beginning in 2002 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 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.

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