



**United States
Department of
Agriculture**

Risk
Management
Agency

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

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Ross J. Davidson, Jr. /Signed/
Manager

SUBJECT: Transmittal Memorandum
Cultivated Clam Pilot Crop Insurance Program
Docket No. CI-Cultivated Clam Pilot Extension-05-01

Attached for Board consideration of approval or disapproval is the Risk Management Agency's (RMA) Cultivated Clam Pilot Crop Insurance Program docket and related material for extending the pilot program.



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

An Equal Opportunity Employer

Cultivated Clam Pilot Crop Insurance Program
Docket No. CI-Cultivated Clam Pilot Extension - 05-01

EXECUTIVE SUMMARY

Statement of Action

The action before the Board is to decide whether to authorize the Federal Crop Insurance Corporation (FCIC) to continue to offer the Cultivated Clam Pilot Crop Insurance Program on a pilot basis for the 2006 crop year, in order to allow time for a final program evaluation to be conducted, or to convert, modify, or terminate the program at this time. Continuing the current program would allow RMA to collect additional experience data related to the program changes implemented in 2004, which may help to support a recommendation for action on the program in the future.

Past Action

The Cultivated Clam program has been available in the same counties since its initiation in the 2000 crop year. In 2003, the Board extended the Cultivated Clam Pilot Crop Insurance Program through the 2005 crop year.

Background Information

FCIC implemented the Cultivated Clam Pilot Crop Insurance Program in 2000 to provide coverage for clam producers in Brevard, Dixie, Indian River, and Levy Counties, Florida; Barnstable, Bristol, Dukes, Nantucket, and Plymouth Counties, Massachusetts; Beauford and Charleston Counties, South Carolina; and Accomack and Northampton Counties, Virginia. No program expansion has taken place since the program was initiated in 2000.

The Cultivated Clam program is an asset-based plan of insurance. Insureds submit inventory records of their insurable stock with their applications and are allowed to increase their inventory throughout the insurance period, for additional premium. Indemnities are payable for insured causes of loss that reduce the inventory value below the insurance guarantee.

Insured causes of loss for clams are: oxygen depletion (due to vegetation, microbial activity, harmful algae bloom, or high water temperature), disease, freeze, hurricane, increase or decrease in salinity, tidal wave, or storm surge (storm surges are verified by the National Oceanic and Atmospheric Administration.) The policy will not insure against any loss caused by the inability to market shellfish as a direct result of quarantine, boycott, refusal of a buyer to accept production, collapse or failure of buildings or structures, loss of market value, vandalism, theft, pollution, predation, or human activity (e.g. dredging). In addition, unexplained shortages of inventory are not covered under this policy.

RMA made major changes to the program for the 2004 crop year. These changes included:

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- Revising coverage from age to stage to more accurately represent the physiological changes to the growing clam;
- Adding language to clarify that the insured must report all clams on a lease including any clams owned or subleased to other individuals or entities;
- Adding language to indicate that, in certain states, the premium can be pro-rated for partial year increases in inventory value;
- Adding language to require prior growing and management experience for obtaining insurance;
- Modifying the definitions of certain loss events to be more specific to the actual event;
- Adding ice floe as a cause of loss; and
- Adding criteria for replanting clams.

Experience data for the Cultivated Clam Pilot Program is provided in Tables 1-3, which are attached. The cumulative loss ratio for the 2000-2003 crop years was 1.79. Due to the large number of weather events, especially the four hurricanes that hit Florida in 2004, it is not possible to assess the impact of the program changes made for 2004 at this time.

For 2004, the number of policies earning premium, policies indemnified and liability declined in Florida, Massachusetts, and South Carolina while increasing slightly in Virginia. The loss ratio in Florida for 2004 was 1.75. South Carolina and Virginia had loss ratios in 2004 over 1.0; however, losses are generally attributable to known weather events. The loss ratio in Massachusetts in 2004 was under a 1.0. The vast majority of the experience for the program is at the buy-up level of coverage.

Reason for the Action

This action is being submitted to the Board at this time, because the Board only authorized the pilot program to continue through the 2005 crop year, so some action must now be taken to continue, convert, modify, or discontinue the program. RMA's compliance office is currently reviewing claims filed in the Cedar Key, Florida area. Anecdotal evidence indicated potential issues with loss adjustment and verification of claims. The compliance office will be conducting additional analysis and reviews that may be utilized in the evaluation of the program. RMA is currently contracting for an evaluation of the program and the results should be provided to the Board prior to the 2007 crop year. The experience for the 2005 crop year may help the evaluator assess the impact of the changes made to the program beginning with the 2004 crop year. The contract change date for this program is August 31.

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IMPACT ANALYSIS

Producers

- Extending the Cultivated Clam program would ensure that producers in pilot counties have a risk management program available;
- The cultivated clam program offers insurance that would not be available through the commercial market; and

Stakeholders

- Continuing the Cultivated Clam program for 2006 would offer an opportunity to determine if the changes made to the program improve the actuarial soundness of the program, which may ultimately benefit stakeholders.
- Insuring cultivated clams mitigates our dependence on imported aquacultural products and collateralizes the value of the crop.

Approved Insurance Providers

- This product has been offered since the 2000 crop year, Continuation of the program for 2006 will have minimal impact on insurance providers.
- Continuing the program for 2006 adds minimal risk to the insurance providers since they may place policies in any of the three revenue funds available under the terms of the SRA.

Reinsurance

- The requested extension should not increase the need for outside reinsurance.

Other Participants

- Extending the program continues to provide lenders a certain amount of collateral.

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BUDGET CONSIDERATION

The impact of continuing this program in pilot status on Information Technology resources is minimal (likely less than \$10,000) since the actuarial documentation for the program currently exists. For maintenance of this program, the requirements are not considered to be excessive, and can be absorbed within current staff limits (less than 1 FTE) since these requirements have been handled on an ongoing basis since implementation of the program.

DELEGATION OF AUTHORITY

If approved by the Board, the Board could delegate to the Manager of the Corporation authority to make such technical policy changes, as necessary, to make the policy legally sufficient.

EFFECTIVE DATE

This docket will become effective upon signature by the Chairperson of the Board.

FOR OFFICIAL USE ONLY DESIGNATION

This program docket is "For Official Use Only" and the "For Official Use Only" designation will terminate once the Board takes a substantive action regarding this docket, or upon approval of the product in the case of a 508(h) submission.

LEGAL AUTHORITY

The Office of General Counsel previously reviewed the policy for legal sufficiency, and at this time has identified no legal impediments that would prohibit Board approval.

FINAL RESOLUTION

RESOLVED, that pursuant to the information contained in Docket No. CI-Cultivated Clam Pilot Crop Insurance Program-05-01, Exhibit No. 2796, as well as other related materials that were submitted to the Board for consideration and discussion on this matter, the Board approves the continuation of the Cultivated Clam Pilot Crop Insurance Program on a pilot basis through the 2007 crop year, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Manager as authorized under section 523(a)(4)(b) of the Federal Crop Insurance Act. 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.

Adopted by the Board of Directors on: June 8, 2005

/Signed/ _____
Byron Anderson, Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/Signed/ _____
Keith Collins
Chairman of the Board

June 8, 2005
Date

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Table 1. Summary of Business – Cultivated Clam Pilot Crop Insurance History 2000 to Present
(As of 5/12/05)

State	Year	Policies Earning Premium	Policies Indemnified	Liability	Total Premium	Indemnity	Loss Ratio
Florida	2000	231	80	17,582,128	735,719	1,961,769	2.67
	2001	265	107	18,295,829	922,023	2,526,312	2.74
	2002	365	131	26,388,269	1,410,302	3,924,832	2.78
	2003	309	77	20,356,213	1,179,642	1,956,786	1.66
	Sum 2000-03	1,170	395	82,622,439	4,247,686	10,369,699	2.44
	2004	192	69	5,339,015	524,824	945,201	1.75
Florida Total		1,362	464	87,961,454	4,772,510	11,314,900	2.37
Massachusetts	2000	45	11	3,213,602	84,345	107,806	1.28
	2001	38	1	2,521,563	60,571	150,000	2.48
	2002	31	0	2,710,459	68,960	0	0.00
	2003	30	7	2,810,694	66,634	189,520	2.84
	Sum 2000-03	144	19	11,256,318	280,510	447,326	1.59
	2004	26	3	2,120,979	48,820	25,383	0.52
Massachusetts Total		170	22	13,377,297	329,330	472,709	1.44
South Carolina	2000	5	0	1,397,576	41,758	0	0.00
	2001	5	0	404,495	8,739	0	0.00
	2002	8	0	1,242,862	30,378	0	0.00
	2003	15	1	1,628,083	47,871	77,599	1.62
	Sum 2000-03	33	1	4,673,016	128,746	77,599	0.60
	2004	8	1	836,576	19,095	31,938	1.67
South Carolina Total		41	2	5,509,592	147,841	109,537	0.74
Virginia	2000	54	0	13,927,499	263,959	0	0.00
	2001	70	2	19,993,381	409,273	204,386	0.50
	2002	73	3	29,611,023	671,063	94,416	0.14
	2003	65	10	26,382,333	566,251	550,615	0.97
	Sum 2000-03	262	15	89,914,236	1,910,546	849,417	0.44
	2004	71	21	19,404,772	376,442	978,933	2.60
Virginia Total		333	36	109,319,008	2,286,988	1,828,350	0.80
TOTAL	2000-03	1,609	430	188,466,009	6,567,488	11,744,041	1.79
TOTAL	2004	297	94	27,701,342	969,181	1,981,455	2.04
GRAND TOTAL	2000-04	1,906	524	216,167,351	7,536,669	13,725,496	1.82

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Table 2. Additional vs. CAT Coverage, 2000-2004

Year	Coverage Type	Policies Earning Premium	Percentage Coverage Type	Total Premium	Indemnity	Loss Ratio
2000	Additional	310	93%	1,104,733	2,059,748	1.86
	CAT	25	7%	21,048	9,827	0.47
2000 Total		335		1,125,781	2,069,575	1.84
2001	Additional	352	93%	1,374,195	2,730,698	1.99
	CAT	26	7%	26,411	150,000	5.68
2001 Total		378		1,400,606	2,880,698	2.06
2002	Additional	460	96%	2,164,965	4,017,352	1.86
	CAT	17	4%	15,738	1,896	0.12
2002 Total		477		2,180,703	4,019,248	1.84
2003	Additional	402	96%	1,840,594	2,769,307	1.50
	CAT	17	4%	19,804	5,213	0.26
2003 Total		419		1,860,398	2,774,520	1.49
2004	Additional	258	87%	889,131	1,981,455	2.23
	CAT	39	13%	80,050	0	0.00
2004 Total		297		969,181	1,981,455	2.04
Total Additional		1,782	93%	7,373,618	13,558,560	1.84
Total CAT		124	7%	163,051	166,936	1.02
GRAND TOTAL		1,906		7,536,669	13,725,496	1.82

Table 3. Clam Experience by Coverage Level, 2000-2004

Type	Level	Policies Earning Premium	Total Premium	Liability	Indemnity	Loss Ratio	
Additional	50	445	2,134,666	101,995,001	1,647,993	0.77	
	55	33	73,968	3,016,930	152,150	2.06	
	60	91	504,288	17,541,732	565,686	1.12	
	65	634	2,074,059	46,778,744	5,273,419	2.54	
	70	372	1,664,699	27,644,419	3,354,784	2.02	
	75	207	921,938	11,353,143	2,564,528	2.78	
Additional Total		1,782	7,373,618	208,329,969	13,558,560	1.84	
CAT		50	124	163,051	7,837,382	166,936	1.02
Plan Total		1,906	7,536,669	216,167,351	13,725,496	1.82	

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Fund	Coverage Level	Policies	Percentage
Assigned Risk	BUY-UP	1,466	82.97
Assigned Risk	CAT	126	7.13
Commercial	BUY-UP	88	4.98
Commercial	CAT	10	0.57
Developmental	BUY-UP	70	3.96
Developmental	CAT	7	0.40
TOTALS		1,767	100

Pilot Clam Counties

