



**United States
Department of
Agriculture**

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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DATE: September 20, 2012

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 4092

This document is the Manager's Report to the Federal Crop Insurance Corporation Board of Directors meeting on September 20, 2012.

Update from Product Management

New Price Discovery Application: Actuarial and Product Design Division continues efforts for redesigning the price discovery application that provides prices and volatility factors for the revenue based insurance offers. The public reporting features of the new application will include a modern layout, user tools, the ability for handling data, and eventually be accessible by mobile phone application. The beta version of the website is now scheduled to be launched in September and include a feedback page allowing public users to provide input about what information they would like to be able to see and what works or does not work.

Drought Questions and Answers: RMA continues to receive many drought related questions from producers and approved insurance providers (AIPs). To assist in answering these questions, RMA is continually updating the document, "2012 Drought Questions and Answers," on the RMA Website. This included announcement of program modifications for the 2013 crop year to allow haying and grazing of cover crops under certain conditions and criteria.

Tart Cherries: RMA issued a statement of work for development of an insurance program for tart cherries. The solicitation closed on September 10, and the Product Design Branch will review the proposals submitted by the contractors. Recommendations will be sent to the contracting officer and an award is targeted to be made by early October.



IT Modernization (ITM) - Accounting Phase: RMA has been having Accounting Discovery meetings with SAIC under the new Agile Scrum methodology for developing business support systems. The “IT Modernization (ITM) Accounting Initiative” will provide RMA stakeholders timely and accurate financial reports and data to support the “Standard Reinsurance Agreement” as part of the Federal Crop Insurance program and its external reporting requirements. This initiative will provide an opportunity for technology refresh, automation and modernization of business processes bringing standardization and consistency across all of RMA’s business systems.

Hurricane Isaac Impact Analysis Using the Comprehensive Information Management System (CIMS): Product Management provided maps and support data regarding the potential impact of Tropical Storm (and Hurricane) Isaac using the CIMS Management Decision Report web application. These analytical tools provided snapshot views of insured acres and liability, as well as planted acres the Farm Service Agency (FSA) reports, through the storm’s progression. Maps and reports were also provided based on the National Hurricane Center’s “50 Knot Wind Speed Probabilities” map.

New ITM RMA Informational Reports System: The Product Analysis and Accounting Division is designing a set of interactive reports for research and analysis of RMA’s data. This is the first ITM corporate reporting tool under RMA’s ongoing ITM project. When the initiative is fully completed, this system will allow users to research actuarial, accounting, and crop policy information using selection criteria to drill down to useful subsets of data. The initial release of this tool to the public is expected for September and has been released internally to RMA for selected information and testing. The initial public release will contain reports for both prices and county commodity programs, information areas for which RMA receives numerous public requests. Soon, a number of other informational reports will be created to further efficiencies and increase customer service while keeping a consistent look and feel across RMA’s systems.

Regulations:

Peaches – The Final Rule was published in the *Federal Register* on August 30. The revised rule ensures that peaches for processing are not insured as fresh peach production resulting in unintended indemnity payments and negatively impacting premium rates, and simplifies the quality loss adjustment claim processing.

Florida Citrus – The comment period ended August 15, and RMA is addressing the comments received. The proposed rule revises the settlement of claims section of the policy and updates terms to be consistent with the “Acreage Crop Reporting Streamlining Initiative” (ACRSI) project. The final rule will be published no later than the January 31, 2013, contract change date in order to be effective for the 2014 crop year.

Livestock Gross Margin for Dairy Cattle (LGM-Dairy) – LGM-Dairy sales were discontinued after the November, 2011 sales period when approximately \$13.1 million was expended. The Federal Crop Insurance Act limits support to pilot livestock insurance programs to \$20 million in any fiscal year and sales of LGM-Dairy were discontinued to allow adequate funding for the seven other plans that insure livestock. RMA made available approximately \$2.5 million in remaining underwriting capacity for LGM-Dairy to allow for the August 31, sales period. The \$2.5 million was quickly exhausted.

Drought Conditions

On August 23, the St. Paul RO participated in the Wisconsin State Emergency Board (SEB) meeting to respond to drought disaster designations and review the changes to the Disaster Declaration Process. The St. Paul RO Drought and Aflatoxin Fact Sheets, MGR-12-007 Deferral of Interest Charges, MGR-12-012 Haying and Grazing of a Cover Crop and a brief overview of the crop insurance claim process were covered.

Iowa Secretary of Agriculture, William Northey, contacted the St. Paul RO on August 6, inquiring about any new or updated provisions regarding aflatoxin in corn since drought conditions in Iowa are prompting producer inquiries to their department. Secretary Northey also inquired about any restrictions on double cropping or cover crops that may affect Iowa producers planting forage or small grain after failed corn. The department is investigating emergency feed assistance for drought-affected livestock producers. The St. Paul RO has updated its aflatoxin fact sheet and continues to respond to questions.

The St. Paul RO received two phone calls in late August from Iowa producers asking if aflatoxin has been confirmed. The RO referred the callers to the RMA Aflatoxin Fact sheet, as well as Iowa State University, who has stated conditions in 2012 were right for aflatoxin. Iowa State is encouraging producers to scout for the visible, green, powdery mold aspergillus, which produces aflatoxin. Producers are encouraged to screen and test their corn crop when aflatoxin is suspected. The Iowa Department of Agriculture and Land Stewardship required aflatoxin screening and testing of milk received in Iowa beginning August 31, and continuing indefinitely.

Large Claims

To date, the St. Paul RO has received 472 notifications for large claim reviews (over \$500,000), due to the drought and revenue prices.

The office of Iowa Congressman Steve King (R-5th IA) contacted the St. Paul RO on behalf of several constituents who are concerned about the RMA requirement to review claims over

On August 8, the Billings RO Director met with the National Crop Insurance Services South Dakota State Committee to discuss crop insurance issues. Discussion centered on current prevented planting procedures and RMA's recent Insurance Services Memorandums IS-12-003 and IS-12-004. The AIPs are making efforts to inform agents and producers that the producer has to prove that a cause of loss occurred within the insurance period; that the acreage has been planted and harvested in at least 1 of the last 4 years; and that the acreage is normally available for planting in the spring to be eligible for prevented planting coverage. The AIPs also have a concern with the mandatory \$200,000 claim actual production history reviews, citing that high commodity prices will have a huge impact on the number of claims that will go over the limit and tax their resources so payment of claims will be held up.

On August 24, a Billings RO Senior Risk Management Specialist received an inquiry from Al Gustin with KFYZ radio in Bismarck, North Dakota concerning the recently issued Bulletin No. MGR-12-012: "Emergency Drought Relief – Allowing the Haying and Grazing of a Cover Crop for the 2013 Crop Year." The Specialist provided excerpts directly from the bulletin to be used in the broadcaster's program. The Specialist also provided a copy of the recently released drought relief press release developed by the Billings RO.

October 22 is the trial date for three farmers, a fresh pack potato operation and an agent from eastern Washington previously indicted by a federal grand jury. The group is accused of defrauding the Federal Crop Insurance Corp. of more than \$9.5 million in crop insurance payments. According to court documents, the farmers grew a potato variety not typically suited for processing -- and entered into contracts to sell the potatoes for processing. When the potatoes failed to meet those requirements, the contract allegedly required the growers to sell the potatoes for a fraction of their fresh-pack market value. The indictment alleges the contracts were designed to manufacture false revenue losses for the growers, who then submitted insurance claims seeking to recoup the losses from selling at bargain prices. The Spokane RO continues to assist the US Attorney's Office in preparing for trial.

Planting Dates

On August 27, the Billings RO Director, Deputy Director, and three Risk Management Specialists met with Barry Coleman, Executive Director of the Northern Canola Growers Association. Topics discussed included production capability of high-oleic canola varieties, APH recertification procedure, and final planting dates. Barry expressed appreciation for RMA's willingness to work with the canola industry to address final planting dates and their continued interest in the trend yield adjustment concept.

The Spokane RO has reviewed and made recommendations to implement initial planting dates for spring types of wheat, barley, canola, oats and dry peas throughout the entire region. The initial planting dates were implemented to reduce the possibility of replant payments being made in a year with an open winter.

Crop Expansion

On August 30, a Billings RO Risk Management Specialist met with a representative of Minn-Dak Growers to discuss the agronomics of buckwheat. Buckwheat is primarily used for making Japanese Soba noodles and is being considered for use in gluten free snacks. The Specialist viewed fields of buckwheat and discussed Minn-Dak's request to expand coverage into Mercer County, North Dakota.

Program Improvements

The Spokane RO implemented several changes to improve the effectiveness of the crop insurance programs in the region. The implementations for perennial and spring crops included:

- Adding a new type of wine grapes to the central Washington wine producing area.
- Working with Product Management to implement a new pricing methodology for grapes.
- Separating the blueberry established price between the early-to-late (group B) and the very late (group A). Prices are significantly higher for the very late varieties.
- Adding two new final planting date maps.
- Expanding blueberry insurance to several additional counties in Washington due to vastly increased acreage being planted and processing plants being built in the area. Expansion counties include Benton, Cowlitz, Franklin, Grant, Snohomish, Walla Walla, and Yakima
- Expanding "Actual Revenue History Cherry" coverage into three additional counties including Sherman & Gilliam counties in Oregon and Kittitas County, Washington

The Davis RO has incorporated a new appraisal method to the "Blueberry Loss Adjustment Standards Handbook" to address hand harvest appraisal situations where no production has yet been harvested (from highbush or rabbiteye varieties), and the bushes have a heavy fruit load. The current procedure was designed for situations where some production would already have been harvested prior to appraisal. The suggested changes reduce the number of bushes per sample from four consecutive bushes per sample to one bush per sample.

Crop Yields

On August 20, two St. Paul RO Risk Management Specialists met with representatives from Organic Valley in La Farge, Wisconsin to discuss program issues involving crop insurance for organic producers and the impact drought has had on organic crops and livestock. Also included was a tour of Turkey Ridge Organic Apple Farm in Gays Mills, Wisconsin. These apple producers use product diversification as their main strategy in risk mitigation. Both Organic Valley and Turkey Ridge expressed how much they appreciated the St. Paul RO's initiative and kind gesture; however, they also voiced their frustration with RMA's organic rating methodology and requested organic producers pay the same rates for crop insurance as conventional producers. On August

21, the specialists attended the 21st Annual Midwestern BioAg Field Day. The courses offered addressed issues such as soil health and correction, building yields, and the importance of quality forages for livestock.

A Senior Risk Management Specialist and the Risk Management Analyst from the Billings RO met with two representatives from the Montana Department of Revenue (Property Assessment Division) to discuss potential uses of crop insurance yield data to contest agricultural assessment/property tax valuations. Currently, the Montana Department of Revenue uses USDA's Natural Resources Conservation Service published crop yield estimates by soil type to determine the assessed valuation of agricultural land. APH and transitional yield concepts were explained to the two representatives from the Montana Department of Revenue, so they have a better understanding of the crop insurance yield metrics that continue to be presented to the Montana Department of Revenue in the context of their property tax appeals process.

Fall Update Meeting

On August 9, the Billings RO Director and a Risk Management Specialist hosted a fall crop insurance update meeting for agents in Pierre, South Dakota. Approximately 55 people attended the meeting. Topics presented included the RMA regional and national changes for 2013, prevented planting issues and concerns for the 2012 loss season, 2013 crop year actuarial changes, and changes to the "2013 Written Agreement Handbook."

Compliance

Final Findings Issued Since the August 2012 Board Meeting

Since the August Board meeting, Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements - \$140,420; indemnity overpayments - \$10,179,038; premium understatements - \$9,244; and indemnity underpayments - \$12,803. In addition, Compliance reported a \$1,570,880 settlement from the 2005 crop year.

National Program Operations Review (NPOR)

The selected companies for 2011 crop year are:

- CRCO- Occidental Fire and Casualty (Agrilogic - OX)
- ERCO- XL Reinsurance (Heartland - GI)
- MRCO- Country Mutual (CM)
- NRCO- Prevented Planting
- SRCO- Rural Community Insurance Services (EF)
- WRCO- American Agricultural Insurance Company (FA)

Supplemental Revenue Assistance Program (SURE) Referrals

As of September 4, the Regional Compliance Offices have received 7,046 SURE referrals from FSA or about 30 more than was reported to the Board in the August report. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance is currently receiving referrals for the 2008, 2009, and 2010 crop year from FSA.