



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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TO: Board of Directors November 15, 2001

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

SUBJECT: Board Memorandum No. 632
Acting Manager's Report

This memorandum serves as a combination Manager's and Deputy Manager's report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the November 15, 2001, meeting. The report relates to both program and administrative issues as outlined below:

1. Summary of Business (As of 11/12/01)

- a. **Summary of Business, 2000:** The 2000 book of business and program participation numbers are complete at this time with only late and corrected claims continuing to create minor changes in the crop year statistics. To date, nearly \$34.37 billion dollars in liability have been reported on more than 206 million acres of crop land representing 1,321,826 crop policies. Indemnities in the amount of nearly \$2.56 billion have been paid out to date. Acreage insured under additional coverage policies increased by about 14 million acres between 1999 and 2000, while catastrophic risk protection insurance (CAT) acres decreased by about 4.6 million acres. The 2000 liability represents an increase of more than ten percent from 1999.
- b. **Summary of Business, 2001:** The program acreage reports have been filed and liability should remain relatively stable for the remainder of the year. As expected, new premium subsidies assisted producers in obtaining higher levels of coverage this year. The current Summary Report for 2001 indicates that 1,282,109 crop policies have reported premium covering almost 207.4 million acres. Liability is over \$35.7 billion and over \$1.3 billion has been paid out for 2001 crop losses to date. The RMA loss estimate for the year shows an expected loss ratio of 0.90 on losses of about \$2.6 billion.
- c. **Current Loss Assessment:** The drought situation in Montana and bordering States continues to be the most significant loss issue regarding this year's crops. Crop insurance losses due primarily to drought are estimated to be \$231 million in Montana, with an expected loss ratio of more than 4.5.

Risk Management Agency (RMA) is maintaining a strategy of monitoring loss situations closely as they develop to ensure uniformity between insurance providers and equal treatment of policyholders. This strategy includes a continuing emphasis on all parties to the crop insurance program of the need to assess requests for policy and procedural changes for their impact on the larger program issues including funding, actuarial soundness, simplification, and the contractual obligations between FCIC, insurance providers, and producers.

The National Summary of Business Report for November 12, 2001 and the State loss estimates for the week of November 2, 2001 are attached.

2. Program Issues:

RMA had very impressive accomplishments in FY 2001, the first year of implementation of the Agricultural Risk Protection Act of 2000 (ARPA). The Agency put systems and procedures in place to execute the new mandatory budget authority of **\$8.2 billion** over five years with \$67.5 million available in FY 2001. Upon passage of ARPA, systems were immediately modified to begin actions that lowered 2001 crop year farmer-paid premiums and increased yield coverage levels. Early reports show that farmer response has been impressive. As a result, RMA recently announced a substantial increase in crop insurance sales since the passage of the 2000 Act that authorized an additional 25 percent premium discount and permanent new subsidies at higher levels of protection. Reports for 2001 show massive shifts to revenue insurance products, while Actual Production History coverage acreage dropped 49 percent. Crop Revenue Coverage (CRC) has tripled and currently covers about 51 percent of all acreage reported to date. CRC covers 67 percent of all crop insurance in force. The Revenue Assurance Program, now available in the southern plains, has increased by 7 percent.

One of the major goals of ARPA is to stimulate private sector development of new, innovative risk management tools and products to broaden the producer safety net to meet the demands of a dynamic agricultural market. To this end, ARPA provided significant funding for reimbursement of research, development and maintenance cost associated with new product development. For FY 2001, ARPA authorized funds to reimburse private companies for the cost of previously developed private products approved by the Board. In FY 2001 \$3.3 million was obligated to cover development costs of three privately developed programs that are currently a part of the array of programs offered by RMA. To ensure expanded new product development, ARPA provided RMA the authority to enter into contracts, partnerships and cooperative agreements. ARPA also recognized the need to provide risk management alternatives including tools and education for underserved areas and crop by authorizing specific funding for that purpose. As a result in FY 2001, RMA awarded almost \$20 million in cooperative agreements and partnerships in 27 states. Also, a five year plan was developed to address the risk management needs of fifteen underserved states.

ARPA expanded RMA's authority to initiate pilot programs as a means of gaining experience on a program's performance as a risk management tool, design and cost prior to approval as a permanent program. To encourage new pilot programs, ARPA provided funding for specific programs, premium rate reductions and cost-share. It mandated the development of a livestock pilot program and approved the expansion of the Dairy Options Pilot Program (DOPP). During FY 2001, two livestock program proposals were submitted for approval and are currently undergoing review for Board consideration.

ARPA recognized the importance of producer education as a part of an effective overall risk management program by providing funding for an expanded risk management education program. During FY 2001, RMA conducted over 838 educational and outreach activities that attracted over 35,000 participants. This included the first National Outreach Conference, Survival Strategies for Small and Limited Resource Farmers and Ranchers with over 300 participants from 45 states, 3 countries and 22 universities.

ARPA places significant emphasis on improving program compliance and integrity. Since the passage of ARPA, RMA has been actively involved in implementing Section 121 of the Act. RMA has initiated a new alliance with the Farm Service Agency (FSA) and reinsured companies to work together to improve program compliance and integrity. RMA Compliance efforts have been focused on integrating the **data reconciliation** processes between FSA and RMA; developing procedures for **referring** potential crop insurance errors or abuse between FSA and RMA; establishing an FSA annual **claims review** role as part of RMA's quality control process; **training** FSA and RMA personnel on the new provisions of ARPA and resulting procedures; and developing the FSA FCIC Program **consultation** process. Additional efforts have been dedicated to initiating the **data warehousing and data mining** project; establishing a **sanctions** function to facilitate the imposition of penalties (such as fines, debarments and disqualifications); and establishing a **Special Investigations Branch** to provide more focused and timely responses to high profile cases that would otherwise strain the capabilities and resources of the existing RMA Regional Compliance Offices (RCO).

The ARPA process together with its' inherent coordination components has provided additional compliance tools and resources for *preemptive* efforts. Early results of increased emphasis on prevention are promising. As a result of prevention efforts, RMA has prevented almost **\$15 million** in improper payments from being made in FY 2001. The first year has shown positive results of ARPA implementation efforts.

ARPA also changed the role and composition of the FCIC Board. As a result Board activities have significantly increased. Since January 2001, the Board has held over fifteen sessions to review and approve new product submissions and reimbursements. As a result, RMA staff and the Board have fostered a new

working relationship that has enhanced the quality of the review and approval process.

During FY 2001, RMA continued to maintain existing programs. Insurance Services continued to carry out its program delivery function which included reinsurance agreements with reinsured companies, ensuring uniformity in claims and underwriting, regional representation of RMA programs at the local level, risk management education and outreach assistance. Program Support Staff continued to work with RMA's organizational units to address administrative issues. This included such innovative initiatives as an Online Training Center and Leadership Development Program. The Civil Rights and Outreach Staff continued to expand and enhance RMA's outreach effort and ensure equal opportunity and access. Additionally, in FY 2001, RMA increased emphasis on communicating program information through new releases and the website.

3. Dairy Options Pilot Program (DOPP):

The Dairy Options Pilot Program was expanded and now includes 300 counties and multiple participation rounds. Substantial local planning and coordination by DOPP teams from regional offices and the on-line DOPP distance learning program resulted in a sharp increase in participation and enthusiasm from dairy producers. Regional Offices conducted 131 educational meetings attended by nearly 3000 dairy producers.

On November 1, 2001, RMA released a Memorandum prohibiting certain trading practices within the DOPP. In short, the Memorandum reminds DOPP participants that the objective of the program is to teach dairy producers how milk put options may be purchased as a hedge against falling prices, and that opportunistic use of the program or the USDA subsidy is improper. Specifically, this Memorandum is a safeguard against trading practices designed to convert this subsidy into a direct cash "payment." RMA worked closely with the Commodity Futures Trading Commission (CFTC) in drafting the language in the Memorandum.

4. FY 2002 FOCUS:

For FY 2002, RMA will focus on five major areas. These areas will support the continued implementation of ARPA and strengthen the maintenance of existing programs while increasing public awareness and use of Agency products. The areas are:

- a. PROGRAM DELIVERY
(including program development, maintenance, delivery and outreach)
- b. PROGRAM INTEGRITY/COMPLIANCE

(increase emphasis on integrity during program design and continue ARPA efforts)

- c. EDUCATION (continue producer education efforts)
- d. TRAINING (RMA staff training to carry out new mission and prepare for workforce turnover)
- e. MESSAGE (provide public information on RMA's programs and products)

5. Administrative Issues:

- a. **FY 2001 Administrative and Operating (A&O) Account – End of Year Results:** In FY 2001 RMA obligated 99% or \$64,922,098 of the A&O appropriation. The unobligated balance was larger than planned due to the events that occurred on September 11th that resulted in the cancellation of travel, training and meetings. The total employees on board at the end of the year were 510 and the staff year usage was 499. The staff year usage reflects employees who retired or transferred to other employment during the fiscal year. A review of the end of year Staffing/Hiring Report reflects 30 positions currently being advertised by Human Resources Management. In addition, there were 31.7 positions available for recruitment and reserved for political appointments by the new Administration.
- b. **Agricultural Risk Protection Act (ARPA) of 2000- End of Year Results:** In FY 2001 \$67,500 was apportioned for ARPA. RMA had direct responsibility for the obligation of \$42,500,000 of these funds. Of the \$42,500,000, RMA obligated \$35,380,273, which was an obligation rate of 83.2%. Of the amount remaining from the apportionment, \$5,000,000 was transferred to the Cooperative State Research, Education and Extension Service for obligation and \$3,398,339 was obligated based on the FCIC Board approval of reimbursement costs for 508h submissions. The cumulative obligation total was \$43,778,612 of the \$67,500,000 apportionment, which was an overall obligation rate of 64.9%.
- c. **FY 2001 Employee Recognition Program:** In FY 2001, 75% of RMA employees received \$390,000 or 1.5% of salary and benefit costs in recognition for their efforts in helping the Agency meet its goals and objectives for the year. Additionally 21 employees received Quality Step Increase and 167 days were given for Time Off Awards.
- d. **FY 2002 Administrative and Operating (A&O) Account – Budget Estimate:** The Department of Agriculture is under Continuing Resolution (CR) until November 16, with the possibility of another extension of the CR before the FY 2002 Appropriation Bill is passed by Congress. The budget

request for the FY 2002 A&O Account is \$74.8 million. The budget request includes \$43.4 million for salaries and benefits; \$21.0 million for expenses such as travel, training, rent, communications and agreements; and \$10.4 million for Information Technology costs. This budget request supports the employment ceiling of 568.

- e. **FY 2002 Federal Crop Insurance Corporation (FCIC) Fund – Budget Estimate:** As of November 7, Congress has not approved a permanent appropriation. However, because FY 2001 appropriation language allowed “such sums as may be necessary” to cover expenses of the Corporation, all FY 2002 planning and spending activities are continuing uninterrupted. This includes ARPA mandates, with the exception of the wild salmon program, since no funding or authority was available in FY 2001. The latest FY 2002 budget estimate for the FCIC Fund totals \$2.9 billion, of which: \$1.8 billion is for premium subsidy; \$626.3 million is for reimbursement of delivery expenses to reinsured companies; \$361.3 is for excess losses; and \$58.0 million is for ARPA initiatives.

Attachments

- National Summary of Business Report dated November 12, 2001
- RMA State/Crop Loss Estimates for 2001, dated November 2, 2001
- RMA Compliance Case Summary Report for FY 2001 and FY 2000
- RMA Compliance Case Summary Report for CY 1997 – 2000
- RMA Civil Rights and Community Outreach 2001 Accomplishments