



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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To: Board of Directors
Federal Crop Insurance Corporation

September 17, 2001

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

SUBJECT: Board Memorandum No. 625
Docket No. CI-NUTRIENT-BMP-01-1
Pilot Nutrient Management/Best Management Practice Insurance Program
Submitted by AgFlex and the Agricultural Conservation Innovation Center,
American Farmland Trust for the 2002 Crop Year

There is submitted for your consideration the subject docket authorizing or not authorizing the pilot Nutrient Management/Best Management Practice Insurance Program (Nutrient/BMP) beginning with the 2002 crop year as submitted by AgFlex and Agricultural Conservation Innovation Center (ACIC), with reinsurance, risk subsidy, and administrative and operating subsidy.

Section 508(h) of the Federal Crop Insurance Act (Act) requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance if the policy is actuarially sound and the interests of producers are adequately protected.

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 experts and other reviews, Docket No. CI-NUTRIENT-BMP-01-1.

RESOLVED, That Docket No. CI-NUTRIENT-BMP-01-1, Exhibit No. 2063, authorizing implementation of the pilot Nutrient Management/Best Management Practice Insurance Program with reinsurance, risk subsidy, and administrative and operating subsidy beginning in 2002 as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved 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 the policy terms identified by the reviewers.

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 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-NUTRIENT-BMP-01-1, Exhibit No. 2063, 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: September 17, 2001

FCIC Docket No. CI-NUTRIENT-BMP-01-1

Pilot Nutrient
Management/Best Management
Practice Insurance Program -
2002 Crop Year

Voted on by the Board of Directors on: September 17, 2001

Pilot Nutrient Management/Best Management Practice Insurance Program for the 2002 Crop Year
Docket No. CI-NUTRIENT-BMP-01-1

SUMMARY

If approved by the Board, this docket will authorize implementation of the pilot Nutrient Management/Best Management Practice Insurance Program with reinsurance, risk subsidy, and administrative and operating subsidy beginning in the 2002 crop year, as authorized under section 508(h) of the Federal Crop Insurance Act (Act).

FOR FURTHER INFORMATION CONTACT:
Diana Moslak, (202) 720-2832

Pilot Nutrient Management/Best Management Practice Insurance Program for the 2002 Crop Year
Authorization for Approval or Disapproval
Docket No. CI-NUTRIENT-BMP-01-1

A - INTRODUCTION

I. Purpose

If approved by the Board, this docket will authorize implementation of the pilot Nutrient Management/Best Management Practice Insurance Program with reinsurance, risk subsidy, and administrative and operating subsidy beginning in the 2002 crop year, as authorized under section 508(h) of the Federal Crop Insurance Act (Act).

II. Justification

The authority contained in this docket is needed for FCIC to implement the Nutrient Best Management Practice product. Section 508(h) of the Act requires the FCIC to provide reinsurance to reinsured companies to provide additional insurance risk management tools to producers only if the program is actuarially sound and interests of producers are adequately protected.

III. Background Data – Pilot Nutrient Management/Best Management Practice Insurance Program

Section 508(h) of Act allows a person to submit to the Board of Directors (Board) other crop insurance policies that if the Board finds that the interests of the producers are adequately protected and that any premiums charged to the producers are actuarially appropriate, will be approved by the Board for reinsurance and for sale by approved insurance providers to producers at actuarially appropriate rates and under appropriate terms and conditions.

Agflex and ACIC is requesting reinsurance, risk subsidy, and administrative and operating (A&O) subsidy and to impose other costs directly on the producer for its the pilot Nutrient Management/Best Management Practice Insurance Program beginning with the 2002 crop year, in accordance with section 508(h) of the Act.

The applicant proposes to insure 135 percent of the actual production (APH) yield. The policy will pay the difference between 135 percent and an actual yield as low as 65 percent or 70 percent coverage. The applicant seeks a subsidy level of 59 percent for this proposed product. The applicant proposes two reinsurance agreements for approved insurance providers (AIPs) that sell this product.

The new standard reinsurance agreement would combine elements of the Commercial and Assigned Risk Funds. AIPs may choose to remain under the current agreement or opt for the new fund. The additional costs of laying out the check strips and loss adjustment will be borne by producers.

The pilot Nutrient Management/Best Management Practice Insurance Program provides insurance protection from crop production loss when a producer applies a rate of fertilizer (nitrogen, phosphorus or both) for maximum crop yield as recommended by a Best Management Practice (BMP). A certified crop consultant will recommend a BMP system for the production area and crop

to determine how much fertilizer to apply. On the insured acreage, the producer will apply the recommended rate of fertilizer. This portion of the field is called the management unit. Adjacent to the management unit, the crop consultant will lay out a check strip on which the producer will apply his/her historical rate of nutrients. If the producer thinks the crop production on the management unit is low because of insufficient fertilizer, the producer may request a crop appraisal. The loss adjuster will use standard crop insurance field appraisal methods to determine the production on the check strip and management unit. If the production per acre on the check strip is greater than the management unit, less a deductible (2.5 or 5.0 percent), the producer receives an indemnity. The producer must use the same farming practices on both the check strip and management unit. It is assumed that growing conditions for the management unit and the check strip are the same, and that fertilization is the only variable. The policy does not cover any causes of loss insured by a policy reinsured by FCIC, i.e., drought, but only loss of yield from fertilizer recommendations.

BMPs developed by land-grant experts are widely recommended by the Natural Resource Conservation Service, Extension, and private crop consultants. AgFlex and ACIC collected and evaluated data from seven states and over 4,000 check strips in developing the pilot Nutrient Management/Best Management Practice Insurance Program, the results of which, they believe, substantiate this policy and will enable producers to reduce operating costs by applying less fertilizer.

Agflex and ACIC estimate that net producer premium would cost between \$5.00 and \$8.00 per acre at the maximum coverage level and that producers would have a net savings of \$10.00 per acre after paying for the policy

The proposed pilot Nutrient Management/Best Management Practice Insurance Program would cover field corn grown for grain in the states of Delaware, Iowa, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, New York, Ohio, Pennsylvania, South Dakota, Virginia, and Wisconsin. If the pilot program is successful, AgFlex and ACIC intend on expanding the BMP coverage to additional states and crops such as soybeans and wheat.

B - AUTHORIZATION

I. General

Authority to approve the pilot Nutrient Management/Best Management Practice Insurance Program with reinsurance, risk subsidy, and administrative and operating subsidy beginning with the 2002 crop year is contained in section 508(h) of the Act (7 U.S.C. 1508(h)).

II. Program Description

The authority provided by this docket will enable FCIC to implement the pilot Nutrient Management/Best Management Practice Insurance Program in Minnesota, Wisconsin, Nebraska, Kansas, Kentucky, South Dakota, Iowa, Missouri, Illinois, Indiana, Michigan, Ohio, Pennsylvania, New York, Delaware, Maryland, and Virginia. The pilot Nutrient Management/Best Management Practice Insurance Program seeks to provide protection for producers who agree to use a BMP plan recommended by a certified crop consultant. This plan determines the amount of nitrogen (N), phosphorus (P) or both the producer applies to a crop on a specific acreage. AgFlex and ACIC's research during development of the BMP product found that producers tend to over-fertilize crops just to be sure enough N and P are available for crops rather than using scientific methods to determine the optimal amount of these nutrients which is usually less than producers tend to apply.

AgFlex and ACIC seek to reduce the risk producers take when they use BMP application rates for N and/or P by providing insurance to cover the difference between yields from the producer's normally practiced nutrient application rate and yields from land fertilized at the BMP nutrient rate. Test strips laid out by the crop consultant and paid for by the producer are fertilized with usual levels of nutrients while the majority of each field is fertilized with the BMP amount of the nutrients. At the end of the crop season, the yields of the two areas are compared and the loss due to differences between the two levels of nutrient application is determined.

III. Operating Provisions

The operating provisions for implementing this program are the pilot Nutrient Management/Best Management Practice Insurance Program policy provisions, actuarial documents, underwriting rules, and administrative procedures approved by the Board for RMA to administer.

IV. Administration

If approved by the Board, this program may be offered by all insurance companies reinsured by FCIC and will be carried out in accordance with the provisions of the Act. The reinsurance will be provided in accordance with a revised Standard Reinsurance Agreement. Accommodation would have to be made to allow additional costs to be borne by producers and the deviation from the current fund designations.

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

The availability of funds is discussed in the attached memorandum from the Chief Financial Officer of RMA.

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 the Federal Crop Insurance Corporation's Board of Directors (Board) suspend action on the pilot Nutrient Management/Best Management Practice Insurance Program until its November 2001 Board meeting. During the interim, the Company and Risk Management Agency will exchange by not later than October 9, 2001, a list of primary issues to be discussed by the parties at a meeting to occur by not later than October 19, 2001.

Adopted by the Board of Directors on: September 17, 2001

/s/ Diana Moslak
Diana Moslak, Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/s/ Keith Collins
Keith Collins
Acting Chairman of the Board

9/19/01
Date