



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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

TO: Board of Directors
Federal Crop Insurance Corporation

October 18, 2002

FROM: Ross J. Davidson, Jr. /s/ *Ross J. Davidson, Jr.*
Manager

SUBJECT: Board Memorandum No. 685
Docket No. CI-GRIP-02-1
Expansion of the Group Risk Income Protection Plan of Insurance -
Submitted by American Agrisure, Inc., beginning with the 2003
Crop Year - 508(h) Submission

There is submitted for your consideration the subject docket authorizing or not authorizing the expansion of the Group Risk Income Protection (GRIP) plan of insurance to all counties which currently have approved Group Risk Plan (GRP) corn and soybean programs in the states of Michigan and Ohio, beginning with the 2003 crop year as submitted by American Agrisure, Inc., with reinsurance, risk subsidy, and administrative and operating subsidy.

Under section 508(h) of the Federal Crop Insurance Act (Act), the Board shall approve a submission if the interests of producers are protected and the premium rates are actuarially appropriate. While section 508(h) of the Act states that submissions may be prepared without regard to the limitations in the Act, it is not unrestricted. The coverage level and price elections have been specifically referenced as examples of the limitations that do not apply. These provide the guidelines regarding what constitutes a limitation. All other provisions of the Act, such as prohibitions, are applicable to the submission. If the submission violates one of these other provisions, then the Board does not have the authority to approve the submission. Since the Act also requires the agency to take such action to make the program actuarially sound and protect the integrity of the program, the Board does not have the authority to approve submissions that contain program vulnerabilities or adversely affect program integrity.

It is necessary for the Board of Directors to select one of the following options to either approve or disapprove, based on the Risk Management Agency's review, Docket No. CI-GRIP-02-1.

RESOLVED, That Docket No. CI-GRIP-02-1, Exhibit No. 2138, authorizing implementation of the expansion of the Group Risk Income Protection plan of insurance corn and soybeans programs in Michigan and Ohio, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Board beginning with the 2003 crop year in all counties that are currently approved for the Federal Crop Insurance Corporation's Group Risk Plan of Insurance for corn and soybeans in the

states of Michigan and Ohio, 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.

OR

RESOLVED, That Docket No. CI-GRIP-02-1, Exhibit No. 2138, is disapproved on the basis that the Board has determined that the changes requested by the submitting entity to its Group Risk Income Protection plan of insurance require expert review.

"For Official Use Only" and "Secure Storage Required" Provisions Expired on: October 24, 2002

FCIC Docket No. CI-GRIP-02-1

Expansion of the Group Risk
Income Protection Plan of
Insurance Beginning with the
2003 Crop Year

Voted on by the Board of Directors on: October 22, 2002

Group Risk Income Protection Plan of Insurance
Beginning with the 2003 Crop Year
Docket No. CI-GRIP-02-1

SUMMARY

If approved by the Board, this docket will authorize the expansion of the Group Risk Income Protection plan of insurance, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions determined appropriate by the Board beginning with the 2003 crop year in all corn and soybean counties in Michigan and Ohio that are currently approved for the Federal Crop Insurance Corporation's Group Risk Plan of Insurance, as authorized under section 508(h) of the Federal Crop Insurance Act.

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

Expansion of the Group Risk Income Protection Plan of Insurance
Beginning with the 2003 Crop Year
Authorization for Approval or Disapproval
Docket No. CI-GRIP-02-1

A - INTRODUCTION

I. Purpose

If approved by the Board of Directors (Board), this docket will authorize implementation for the expansion of the Group Risk Income Protection (GRIP) corn and soybean programs to Michigan and Ohio, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions determined appropriate by the Board beginning with the 2003 crop year in all counties in Michigan and Ohio that are currently approved for the Federal Crop Insurance Corporation's Group Risk Plan of Insurance, as authorized under section 508(h) of the Federal Crop Insurance Act (Act).

II. Justification

Section 508(h) of the Act requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance to reinsured companies to provide additional insurance risk management tools to producers only if the policy complies with all applicable provisions of the Act, the interests of producers are adequately protected, the premium rates are actuarially appropriate and program integrity is protected.

III. Background Data – Expansion of the Group Risk Income Protection Plan of Insurance

The coverage and exclusions of the GRIP basic provisions and crop provisions are similar to the standard FCIC's GRP basic provisions and crop provisions. GRP provides coverage for widespread loss of yield in a county. GRIP provides coverage for widespread loss of revenue in a county.

The GRIP policy offers coverage levels in 5 percent increments from 70 percent to 90 percent. The GRIP expected county revenue is the expected National Agricultural and Statistics Service (NASS) county yield, as adjusted for trends, multiplied by the expected price (simple average of the last five final daily settlement prices, in February, prior to the March 15 sales closing date for the nearby Chicago Board of Trade (CBOT) December corn futures contract and November soybean futures contract). The policyholder's trigger revenue is the expected county revenue multiplied by the selected coverage level.

The county revenue is the harvest price (CBOT November average daily settlement price of December futures contract for corn and CBOT October average daily settlement price of the nearby November contract for soybeans) multiplied by the final county yield for the crop year. The amount of protection per acre selected by the insured can be from 60 to 100 percent of the maximum amount of protection shown on the actuarial documents.

If the county revenue is below the policyholder's trigger revenue, the indemnity per acre is calculated by subtracting the county revenue from the trigger revenue, dividing this amount by the trigger revenue, and multiplying this factor by the policyholder's amount of protection per acre.

GRIP was originally approved by the Board for corn and soybeans in all counties in Iowa that currently had GRP corn and soybean programs, and selected GRP corn and soybean counties in Illinois and Indiana beginning with the 1999 crop year. American Agrisure's present submission requests expansion of the GRIP program to all counties in Michigan and Ohio that have GRP coverage for corn and soybeans. The expansion would add 36 GRIP corn counties and 34 GRIP soybean counties in Michigan, and would add 61 GRIP corn counties and 52 GRIP Soybean counties in Ohio. Coverage would be extended to approximately 210,000 acres of corn in the in the two states and approximately 200,000 acres of soybeans. Liability is estimated at \$10,250,000 and premium is estimated at \$500,000. GRIP experience has been positive over the three-year span, 1999 – 2001, in which it has been offered. The GRIP corn loss ratio for this three-year period was 0.79. The corresponding GRP loss ratio for the same states was 0.18. The GRIP soybean loss ratio for the three states was 0.13 while the corresponding GRP loss ratio was 0.34.

B - AUTHORIZATION

I. General

Authority to approve the expansion of the GRIP to all counties in Michigan approved for GRP corn and soybeans, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions determined appropriate by the Board beginning with the 2003 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 expand the GRIP plan of insurance beginning with the 2003 crop year in all approved GRP corn and soybean counties in Michigan and Ohio. GRIP expansion would add 36 GRIP corn counties and 34 GRIP soybean counties in Michigan, and would add 61 GRIP corn counties and 52 GRIP Soybean counties in Ohio. Coverage would be extended to approximately 210,000 acres of corn in the in the two states and approximately 200,000 acres of soybeans.

Liability is estimated at \$10,250,000 and premium is estimated at \$500,000. GRIP experience has been positive over the three-year span, 1999 – 2001, in which it has been offered. The GRIP corn loss ratio for this three-year period was 0.79. The corresponding GRP loss ratio for the same states was 0.18. The GRIP soybean loss ratio for the three states was 0.13 while the corresponding GRP loss ratio was 0.34.

III. Operating Provisions

The operating provisions for implementing this program are the GRIP basic provisions and the GRIP corn and soybean crop 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 under the Standard Reinsurance Agreement (SRA) 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 such terms and conditions determined appropriate by the Board.

V. Effective Date

This docket will become effective upon signature by the Chairperson 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.

