



**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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**TO:** Board of Directors  
Federal Crop Insurance Corporation

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

**SUBJECT:** Board Memorandum No. 700  
Manager's Report

This memorandum serves as a Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the May 7, 2003, meeting. The report relates to program issues as outlined below:

Program Issues:

**Cost of Production (COP)** - The contractor and RMA met on several occasions to address the concerns of the Board of Directors, the expert reviewers, and RMA. A rate methodology revision has been submitted to RMA, however additional work will be required. RMA and the contractor are tentatively proceeding with addressing cotton COP technical issues including, changes to the crop provisions, underwriting procedures, and loss adjustment. Subject to the Board showing favorable reaction and the contractor's successful revisions, RMA envisions presenting a completed cotton COP proposal to the Board for expert review by summer 2003. If the Board approves, cotton COP could potentially be piloted for the 2004 crop year.

**Livestock Risk Protection (LRP) Fed and Feeder Cattle** – The policy materials have been finalized and placed on the RMA website. National Crop Insurance Services (NCIS) conducted a training and kick-off meeting April 30, 2003, in Kansas City, Missouri. The first sales date will be June 9. RMA published a press release and is participating in interviews with agriculture radio networks in several of the pilot states to provide greater visibility to this initiative. Currently, there are nine companies with Livestock Price Reinsurance Agreements who are eligible to begin LRP Fed and Feeder Cattle sales beginning June 9.

**Prevented Planting** – A Prevented Planting Forum was established involving representatives from RMA, the insurance industry, and insurance related service or trade associations and 11 representatives from various commodity growers associations. Two separate meetings have been held with follow up teleconferences taking place. Two approaches to improve the prevented planting regulations have generally been considered and the workgroups are focusing on problem areas and solutions to each. The next meeting is scheduled for May 12<sup>th</sup> and 13<sup>th</sup> with RMA and industry representatives to evaluate identified problems with the current prevented planting provisions and recommendations from the group. The objective of this meeting is to determine feasible solutions worth pursuing and to focus on an end solution of one approach.

For this year, RMA prepared materials to provide further explanation and clarification of existing prevented planting coverage and its application to specific situations. RMA published these materials on its website, shared them with lending institutions, national commodities groups and FSA and all reinsured companies have been asked to review them and to follow the same approach in adjusting prevented planting claims. RMA continue to monitor and respond to prevented planting issues and will work toward improvements with industry and producers.

**Crop Revenue Coverage-Revenue Assurance-Multi Peril Crop Insurance-Income Protection Consolidation** - Research and Development has formed a team to develop a plan to combine the existing revenue products into a revenue endorsement to the Common Crop Insurance Basic Provisions.

The combination will entail identification of policy differences, analysis of the differences and existing policy performance, as well as the selection of the elements to be contained in the combined revenue endorsement. These differences include, but are not limited to, items such as applicable coverage levels, options, price establishment, and unit definitions.

There are a number of differences between each of the plans and the team is to determine the best approach. RMA has also held explanatory discussions with American Farm Bureau Insurance Services (AFBIS) regarding the future of RA and the possibility to include it in this process. RMA has not received a formal indication from AFBIS.

**Basic Provisions** – RMA staff have been meeting with the Office of General Counsel (OGC) to address comments received from the public regarding the Basic Provisions proposed rule. A final draft is expected shortly to begin the Departmental Clearance process.

**CRC/RA Issues and Rate Study** - The APH/RA/CRC Rate Analysis Report has been reviewed. The report offers several recommendations, the most significant of which are the adoption of new coverage level relativities for APH and the adoption of an endogenous risk load for higher coverage levels for APH, CRC, and RA. These recommendations are intended to reduce the disparities between the CRC and RA-HPO rates. In general, the reviewers concur with these recommendations.

The recommendations of this study were partially implemented in 2003 for corn and soybeans. The results were mixed. Premium rates differences between CRC and RA-HPO generally narrowed for soybeans. The rates generally did not narrow for corn at the 65 percent coverage level.

**Secretary's Management Initiative** – The Secretary has identified Risk Management as one of her top initiatives for this year. The initiative includes a comprehensive review of RMAs products with careful considerations of the commodities, areas and risks covered and a review of RMA regulatory authorities to ensure soundness of the delivery system. As part of this effort, the Administrator is conducting a series of listening sessions hosted by RMAs regional offices. Attendees to include local commodity groups, producers and state ag department representatives. The purpose of the sessions is to develop identify customer concerns regarding RMA programs and products. This along with the formal study of the FCIC portfolio and a collection of the risk management agendas of national commodity groups, Ag lending institutions and state Ag departments will provide input for the Board's consideration of the product development plan for the agency.

RMA is also documenting its authorities and identifying additional authorities, processes and resources needed to fulfill its regulatory role.

**Business Process Improvement (Speed in Business)** – Implementation of the Business Process Improvement program is underway and already producing some results. RMA staff serving on four cross-functional teams have made their initial assessments of areas targeted for improvement and reported their findings to the Executive Committee. In the next phase of the process, the cross-functional teams and various subgroups will be making specific recommendations for improving RMA business processes.

**Premium Discount Plan (PDP) Procedures** – RMA developed detailed procedures for companies interested in developing PDP type products. These procedures were submitted to the FCIC Board for comment and are under final review by the Office of General Counsel.

**Crop1 Briefings** – At the request of several Senate offices, RMA recently conducted a briefing on Crop1 to several Senate staffers. Twenty-five Senate staffers and one House staffer attended the briefing in which RMA explained the Crop1 delivery program. RMA addressed many questions and misconceptions about the program. It appeared that our presentation was well received.

**Illegal Rebating** – In response to recent concerns expressed by several crop insurance agent groups regarding alleged rampant illegal rebating activity, RMA requested an opinion of counsel with respect to what constitutes illegal rebating and how state and federal law interact to address the issue. Based on that opinion, RMA published a statement on illegal rebating on the RMA website as a means of identifying the parameters and inviting those concerned to report incidents to the appropriate state and federal authorities.

**American Growers** – RMA continues to work with the Rehabilitator of American Growers (the Nebraska Department of Insurance) in assuring the timely service and payment of claims. Fewer than 300 open claims are pending, and each week less than an additional 30 claims are added. The transfer of 2003 crop year policies to other active companies is proceeding as expected. Substantial additional work remains to complete claims processing, safeguard crop insurance records, dispose of company property and deal with remaining legal and operational issues. RMA's oversight and advisory team of four senior managers rotate their time onsite in Council Bluffs.