



**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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DATE: July 1, 2004

TO: Board of Directors  
Federal Crop Insurance Corporation

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

SUBJECT: Board Memorandum No. 754  
Manager's Report

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the July 1, 2004, meeting. The report relates to program issues as outlined below:

**Program Issues:**

**SRA Update** – The Risk Management Agency (RMA) released the final draft of the Standard Reinsurance Agreement (SRA) to the insurance companies for signature on Thursday, June 10, and to the public on Tuesday, June 15. This final draft is the culmination of 45 individual meetings with companies and insurance industry associations, and reflects their comments, concerns, and suggestions as well as those of Members of Congress, commodity groups, and the general public. Changes from the third draft include responsiveness to concerns over high-risk areas, cooperatives and affiliate oversight. RMA reviewed technical changes with some industry lawyers on June 15. Each insurance company intending to write new business for the 2005 reinsurance year was required to submit a signed copy of the SRA to RMA no later than close of business June 30, 2004. If an insurance company did not execute a 2005 SRA, it cannot write new business. Additionally, the company must begin providing notice of cancellation to each policyholder no later than 30 days prior to the applicable cancellation date for each crop. This time is necessary to allow agents and eligible producers to pursue an orderly transfer of business to an alternative insurance company. As of June 30th, 14 companies representing 100 percent of the Federal Crop Insurance program have signed the 2005 SRA in time for the 2005 Reinsurance Year that begins July 1, 2004. The agency also continues to receive inquiries from additional insurance companies interested in joining the program in 2005 and anticipates receiving the required paperwork in the coming weeks for review. RMA is pleased by the positive response from the companies and looks forward to working closely with them to continue to advance the crop insurance program and meet the risk management needs of America's agricultural producers.

## **Program Highlights/Announcements:**

### **Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields**

- In March 2004, RMA released a Statement of Objectives to develop new or revised methods for mitigating declines in an insured's approved yield following successive years of low yield. RMA's goal is to obtain proposals for: (1) research and development of new and innovative approaches to mitigating declines in yield guarantees following successive years of low yield, or provide improvements to existing procedures; and/or (2) research and development of new and innovative procedures for determination of approved APH yields. In May, RMA held a pre-proposal conference to assist interested parties to better understand RMA's objectives in soliciting proposals to develop new or revised methods for mitigating declines in an insured's approved yields. Contract Proposals were due June 30, 2004. RMA formed a Technical Evaluation Team (TET) to begin contract proposal evaluations during the week of July 12.

### **Research and Development for Risk Management Products for Pasture/Rangeland and Forage**

- In January 2004, RMA released a Statement of Objectives for research and development of Risk Management Products for Pasture/Rangeland and Forage. RMA's goal was to obtain proposals which: (1) provide improvements to existing crop insurance programs specific to pasture, rangeland and forage; and/or (2) research and development of new, and potentially innovative crop insurance programs for pasture/rangeland, forage and hay. In March, RMA held a pre-proposal conference with potential vendors. RMA received 12 contract proposals. In May, the potential contractors conducted oral presentations and the TET provided an overview of the proposals to the FCIC Board of Directors (Board). The Forage, Pasture/Rangeland TET members are coming to closure and expect award of contracts by early to mid-July.

**Basic Provisions** - The final rule that addresses the changes proposed in the Basic Provisions dealing with administrative and program integrity issues is currently being reviewed by the Office of Management and Budget (OMB). The Risk Management Agency has asked for expedited review of this rule. In order for the changes to be effective for the 2005 crop year for crops with a June 30, 2004 contract change date, the final rule must be placed on file with the Office of the Federal Register by June 30, 2004.

**New Products: Sorghum Silage** - The Board voted on May 6, 2004, to approve a Pilot Program to provide crop insurance coverage for Sorghum Silage. Grain sorghum varieties grown for harvest as silage will be eligible for coverage under the new pilot program beginning in the 2005 crop year and continuing through the 2008 crop year for 2 counties in Colorado and 37 counties in Kansas. RMA will finalize the policy terms and conditions and anticipates release of such with the 2005 crop year actuarial filing for grain sorghum in early October 2004. The sales closing date will be March 15, 2005, for the 2005 crop year.

**New Outreach, Education, and Research Partnerships for 2004** - The Request for Application (RFA) for the Community Outreach & Assistance and Education Partnership programs and for new non-insurance risk management tools were published in the Federal Register on May 24, 2004. The last day for applicants to submit proposals is July 8, 2004. RMA Regional Offices, other USDA agencies, Universities and other partners aided in the distribution of the notice to potential applicants. Proposals will be reviewed and rated in July. Awards will be made in August and September.

## **Compliance Report**

**First Operations Review Nearly Complete** - The Dallas Compliance office is nearing completion of the first Operations Review of a SRA holder. These reviews will compliment ongoing financial examinations of our Standard Reinsurance Agreement (SRA) holders and will also provide the necessary data over time to establish a program error rate that has been sought by the USDA, Office of Inspector General. The OMB

will also use the review results as reported by RMA to satisfy the statutory requirements of the Improper Payments Act. The reviews will assess insurance providers' adherence to the SRA, quality control guidelines, and RMA approved policies and procedures. Compliance will revise the review process and the procedures and prepare a schedule to review all companies over the next 36 months. The Kansas City Compliance office is scheduled to perform the next operations review in the near future.

**American Growers Update** - RMA met on June 25, 2004, to assess the remaining items necessary to bring the American Growers (Growers) run-off to completion. There are still some major components of the run-off that must be resolved. Pending a final decision on how to close out Growers, the State has continued to oversee the company in rehabilitation. In completing the 2002 crop year activities under Nebraska's rehabilitation and monitoring by RMA, Growers paid claims on nearly 82,000 policies for about \$743.7M on a premium volume of \$580M (as of 06/21/04). RMA is working on the few remaining open claims for the 2002 and prior crop years. The USDA, Office of Inspector General (OIG) for Audit and the General Accounting Office (GAO) has completed their respective audits of the American Growers failure. RMA has responded to GAO on the draft findings and we are awaiting the publication of the final report. We have not received the OIG discussion draft and OIG has not indicated when it will be provided to RMA for comment.

The current cost to the Federal government for the failure of Grower's currently stands at approximately \$40.7M with minimal outputs still accruing to the cost of the run-off.

**RMA Personnel Receive Secretary's Honor Awards** – RMA is pleased to inform the Board of Directors that several RMA staff has been recognized with a Secretary's Honor Award for their work with the Office of Inspector General in North Dakota and in the American Growers failure. In addition, Mr. Tim Witt has received the Presidential Meritorious Executive Award.

**Annual Report to Congress** - The 2002 Crop Year Compliance Annual Report to Congress has cleared the Office of General Counsel and has been sent to the Department for final clearance. The report shows continuing gains against waste, fraud, and abuse from the use of data mining and remote sensing to identify anomalous producers within the policyholder base. The proposed Standard Reinsurance Agreement for 2005 will build on these results, by incorporating data mining into the selection of policyholders that will be reviewed by the companies as part of their quality control requirements.

**Sanctions, Appeals, and Litigation** - A recent analysis showed that RMA has steadily increased the number of fines, debarments, disqualifications, and suspensions against persons found to have violated program rules from seven in 1999, to 31 for the first 6 months of 2004.