



**United States  
Department  
of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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DATE: September 16, 2009  
TO: Board of Directors  
Federal Crop Insurance Corporation  
FROM: William J. Murphy /s/  
Manager  
SUBJECT: Manager's Report  
Exhibit No. 3031

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the September 16, 2009, meeting.

**Program Update:**

**Apiculture and Pasture, Rangeland and Forage Revisions** – On August 28, 2009, RMA released updated policies and related materials reflecting changes approved by the FCIC Board for the Apiculture and Pasture, Rangeland and Forage Vegetation and Rainfall Index pilot programs. The changes include flexible index interval choices so that producers can select the interval periods they deem most important to forage growth in their operations to best meet their risk management needs. In addition, a change was made replacing the rainfall index with the vegetation index and vice versa in certain areas where it was determined one index was better suited than the other. The changes are effective for the 2010 growing season.

**Crop Adjuster Proficiency Program (CAPP)** – Product Administration and Standards Division (PASD) staff have been working with National Crop Insurance Services (NCIS) in reviewing their newly developed Crop Adjuster Proficiency Program (CAPP). The goal of CAPP is to ensure that all crop adjusters have demonstrated an approved level of proficiency as determined through successfully completing three CAPP exams. PASD staff reviewed the specific exams to determine if the tests accurately and appropriately covered the subject matter. They also reviewed the testing process. PASD then provided recommendations to NCIS for program improvement and met with NCIS staff on August 27, 2009, to further discuss with them their observations.

**New Breaking Land Workgroup** – Concerns have been raised by the Chairmen of the House Agriculture Committee and the Senate Agriculture Committee that the availability of crop insurance via written agreement, or after acreage has been planted and harvested within one of the three previous crop years, is influencing some producers to convert native sod and other fragile land for crop production. Currently, RMA regulations do not allow insurance on acreage that has not been planted and harvested within one of the three previous crop years, unless such acreage was enrolled in another USDA program, was part

of a long term crop rotation or by written agreement. RMA has established a workgroup to review its policy, procedures, rating and guarantee establishment for land that has not been planted and harvested or insured in at least one of the three previous crop years, to include native sod being established as cropland and whether changes should be proposed to procedures and/or regulations to limit crop insurance availability.

**Grain Sorghum Price Methodology** – A notice was published in the Federal Register July 24, 2009, seeking comments on a proposed methodology to determine the Grain Sorghum price election. The 2008 Farm Bill required RMA to contract with five expert reviewers to develop a methodology to determine Grain Sorghum price. The five methodologies are posted via the Federal Register, which also initiated a 60 day public comment period. A public meeting was held August 20, 2009, in Kansas City, Missouri, to obtain input regarding expert reviews received. In attendance were members from National Insurance Crop Services (NCIS), the National Sorghum Producers (NSP), Economic Research Service (ERS), Kansas State University (KSU), and a representative of Congressman Jerry Moran’s office. The public comment period remains open until September 22, 2009.

**PTY Evaluation** – RMA solicited proposals for an evaluation/feasibility study of the Personal T-Yield (PTY) pilot program currently available only in North Dakota. The key objective is to evaluate the North Dakota PTY pilot program, assess the impact of requiring use of the PTY within the pilot area (as opposed to allowing producers to elect it as an option), and assess the potential impact of expanding the program beyond North Dakota. The solicitation closed on September 9, 2009, and submitted proposals are being evaluated.

**Honeybee Feasibility Study** – The solicitation for a study of the feasibility of insuring honeybees, which was a requirement of the 2008 Farm Bill, closed Monday, August 10, 2009. The submitted proposals are being evaluated.

**Quarantine Endorsement Pilot Crop Insurance Program** – Policy materials were released for the Quarantine Endorsement Pilot Crop Insurance Program on August 28, 2009. The Quarantine Endorsement Pilot Program is available for purchase for the 2011 crop year on buy-up policies in the state of California for avocados and citrus fruit. The Quarantine Endorsement will be available as an endorsement to the CA-AZ Citrus policy (California only) and for the recently approved Actual Revenue History (ARH)-Citrus pilot program for navel oranges. It will also be available for the California Avocado pilot program.

**ARH-Citrus Pilot Program** – Policy materials for the ARH-Citrus Pilot Crop Insurance Program were released September 3, 2009. This ARH-Citrus pilot program is available only for navel oranges beginning with crop year 2011. The pilot program will be offered in four California counties: Fresno, Kern, Madera, and Tulare. The sales closing date is November 20, 2009, for the 2011 crop year.

**Preparations for SRA Negotiations**– RMA has formed SRA Workgroups to consider major issues and identify various options for changing SRA provisions in key areas. Some pre-decisional analysis has been performed by the Workgroups. RMA briefed the Secretary on July 31 and has notified Congress before the start of negotiations. RMA had an information gathering

meeting sponsored by the industry on August 11 in which the industry shared its ideas regarding potential changes in the non-financial terms of the SRA. RMA is also meeting with the industry on September 17 to hear the industry's ideas on financial SRA terms and to provide the industry with an update on an RMA-commissioned from Milliman, Inc. regarding AIP profitability. RMA must provide notice to the industry prior to December 31, 2009 that the current SRA will be terminated June 30, 2010 for a re-negotiated SRA to be in place for the 2011 reinsurance year beginning July 1, 2010. RMA expects to release a first draft to AIPs sometime in October for comment.

### **Regulatory Update:**

**Common Crop Insurance Policy (COMBO)** – The comment period for the interim rule published in the Federal Register on June 15, 2009, that revises enterprise unit provisions affected by the changes mandated by the 2008 Farm Bill ended on August 14, 2009. The Product Administration and Standards Division is preparing responses to the public comments as part of the final rule process. Changes to the enterprise unit language will be incorporated into the final rule for COMBO.

**National Financial and Operation Review (NFOR)** – The Financial and Oversight Review Staff visited Hudson Insurance in Overland Park, Kansas, to perform the on-site portion of the NFOR for this company. This review will be the last of six NFOR's planned for fiscal year 2009.

### **Compliance:**

**Recent Compliance Investigation and Sanction Activity** – Edward Bowman (Bowman) and Shur Crop Insurance (Shur Crop), Oklahoma: On August 20, 2009, the Federal Crop Insurance Corporation initiated debarment actions against Bowman and Shur Crop based upon a civil judgment. Bowman and Shur Crop have 30 days to contest the proposed debarment. Bowman is a producer of wheat and soybeans and in 2007 and 2008 sold crop insurance through three separate AIPs. Bowman failed to process necessary paperwork to issue policies resulting in the policyholders cancelling their contracts. One AIP filed a civil suit against Bowman and Shur Crop to collect damages for breaching their agreement. In December 2008, a judgment was filed against Bowman and Shur Crop for \$232,803 plus interest and \$2,000 in attorney's fees. The State of Oklahoma revoked Bowman's license in February 2009.

**July 27, 2009** – Dennis Hawley of Wilson, North Carolina pled guilty to two counts of aiding and abetting the making of materially false statements in connection with the Federal crop insurance program. Hawley engaged in a scheme to defraud the tobacco crop insurance program and to launder the proceeds of the underlying fraud. There have been nine others previously charged in connection with associated schemes to defraud the crop insurance program, who have been sentenced or are awaiting sentencing. The investigation is ongoing.

**Crop Year 2007** – Unlicensed Sales Agents - RMA received notification from the Missouri Department of Insurance advising us that they had assessed fines totaling \$8,000 against an AIP, a sales supervisor, and three non-resident agents who circumvented Missouri's insurance

licensing requirements. The Approved Insurance Provider knowingly circumvented state licensing procedures by permitting their sales supervisor to sign sales documents as the agent of record for agents/agencies who were not licensed in states where they had a small book of business. The AIP advised us that in the past they employed this procedure but recently discontinued this practice. The Missouri Department of Insurance fined the AIP \$2,500, the sales supervisor \$2,000, the owner of the agency \$2,000, and the remaining two agents \$1,500. We identified that this occurred on 31 policies representing \$197,759 in premium and \$37,175 in indemnities. We have referred this matter to RSD to deny reinsurance on the respective policies, which will result in approximately \$79,000 in administrative penalties.

**Current Crop Disaster Program Referrals** – The number of Crop Disaster Program referrals received to date from Farm Service Agency offices nationally is at 6,761. These referrals are the result of FSA identifying discrepancies noted between downloaded crop insurance data and data certified for farm programs at FSA. RMA continues to work with the AIPs to resolve these referrals. Nationally about half of these referrals result from producers reporting one entity to RMA and another to FSA.

**Compliance Database Modernization Project** – The Compliance Activities and Results System (CARS) project is now live and operational. As part of the overall RMA Information Technology Modernization (ITM) project, CARS represents the completion of obtaining a replacement database management system for Compliance cases and reporting. Work is in progress to complete the vision of a final system that will accommodate an all electronic exchange of findings and responses to each of the companies. Compliance has started the initial tests with one company to develop the processes necessary for paperless interactions.

### **Final Findings Issued Since the July Board Meeting**

Since the July Board meeting Compliance has issued final findings to AIPs for the following amounts: premium overstatements \$50,583; indemnity overpayments \$951,198; premium understatements \$552; and indemnity underpayments \$64,593.