



United States
Department of
Agriculture

DATE: September 22, 2010
TO: Board of Directors
Federal Crop Insurance Corporation
FROM: William J. Murphy /signed/
Manager

Federal Crop
Insurance
Corporation

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

SUBJECT: Manager's Report
Exhibit No. 3088

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the September 22, 2010, meeting.

PROGRAM UPDATE:

Organics: The Food, Conservation and Energy Act of 2008 required RMA to contract for research into whether or not sufficient data exists upon which RMA could determine a price election for organic crops; if such data does exist to pursue further development of a pricing methodology using that data; and that RMA contract for research into underwriting, risk and loss experience of organic crops as compared with the same crops produced in the same counties during the same crop years using nonorganic methods. Three studies that resulted from this research, *Organic Crops: Report on Research of Additional Price Elections*; *Organic Crops: Final Development of Additional Price Elections* and *Organic Crops: Revised Written Rating Report*, were released on August 30 and are posted on RMA's website at <http://www.rma.usda.gov/pubs/index.html#organics>. RMA has determined that organic price elections are feasible for corn, cotton, soybeans and processing tomatoes, and will be issuing price elections using the basic methodology outlined in the reports for the upcoming crop year.

RMA is also eliminating a current 5 percent surcharge for organic crops insured under ten crop insurance programs. This results from a comparison of crop specific program loss experience, combined with an analysis of the causes of loss within each specific policy and how those causes of loss may or may not be affected by certain management practices. Affected programs are Figs; Florida Citrus Fruit; Florida Fruit Tree (Pilot); Macadamia Tree; Nursery; Pears; Peppers; Prunes; Texas Citrus Tree; Texas Citrus Fruit. As more data is accumulated, the experience of the organic practice within specific crops and areas will determine appropriate rates and be used for any needed future adjustments, similar to how other practices within the Federal crop insurance program are rated.

Cottonseed Endorsement: RMA is working with the private submitter of the Cottonseed Endorsement for 2011 crop year implementation. All policy materials are now being finalized and will be released in the near future. The 2011 crop year sales closing date for purchase of the Cottonseed Endorsement is March 15, 2011.

Weighting of Historical Experience: RMA recently completed a comprehensive review of the Actual Production History rating methodology that suggested RMA consider a review of its current method for weighting historical loss experience. A contract to do so has been awarded to Sumaria Systems, Inc. Work on the contract began the week of September 7, 2010.

REGULATORY UPDATE:

Apple Crop Provisions: The final rule was published in the Federal Register on August 25, 2010. The rule is in effect for the 2011 crop year. RMA has made significant changes to the apple insurance policy crop provisions. These include: surely Pugh though
Revising the definition of fresh apple production;
Revising to allow optional units by type;
Allowing the selection of different coverage levels for fresh and processing apples;
Yield reduction for failing to notify insurance provider of a yield-reducing event;
Clarifying provision language to address leaving representative samples for claims appraisals;
Adding provisions to state any apple production not graded or appraised prior to sale or storage will be considered as production to count; and Revising to clarify that production to count under the Optional Coverage for Quality Adjustment will include all appraised

SUPPLEMENTAL REVENUE ASSISTANCE PROGRAM (SURE) UPDATE

RMA Product Management staff continues to work with the Farm Service Agency (FSA) Production, Emergencies, and Compliance Division (PECD) on the SURE program. FSA and RMA hold weekly teleconferences to discuss questions and concerns presented by the crop insurance industry or FSA staff regarding the SURE program for ongoing 2008 program processing, as well as, future crop years programming specifications. RMA provides subject matter experts from Product Management and Insurance Services to discuss the operations of the specific crop insurance policies to assure that FSA has a clear understanding of the data being provided for the SURE program, and to assist FSA in determining whether they want to request data modifications in the SURE output file being provided by RMA. RMA hands generated the SURE output file for crop year 2009, and 2010 SURE is currently under discussion with FSA. FSA's target date for program requirements is October 1. RMA programming staff has begun using existing programming specifications for crop year 2008 in the 2009 SURE output file, initiating additional programming change requests received from FSA.

IT PROJECT AND ACTIVITIES

The IT Modernization program continues Phase II development. Phase II focuses on corporate reporting providing data reporting and analysis capabilities. Phase II is scheduled for operation in mid-2011. Phase I focused on actuarial processes, policy processing, premium calculations, and other functions needed to file Crop Year 2011 insurance offers and implement the new Combo policy for 2011. Phase 1 successfully started operations in June 2010.

RMA supports many information technology functions using private contractors. The contract for IT services is generally for five years and is due to expire in 2011. RMA has begun the competition for the next five year contract. A Request for Proposal was issued in September 2010 to prospective contractors interested in bidding for the work.

REINSURANCE SERVICES DIVISION

Plans of Operations: The Reinsurance Services Division (RSD) is performing its annual financial and operational review of the 2011 plan of operations for the 16 companies participating in the Standard Reinsurance Agreement and 10 companies participating in the Livestock Price Reinsurance Agreement. RSD is preparing a management briefing with the participation recommendations for the 2011 reinsurance year.

INSURANCE SERVICES

Iowa Harvest

Thirty-four percent of the corn crop has reached maturity. Ninety percent of the crop has started to dent, and ninety-eight percent has entered or reached dough stage. Forty-five percent of Iowa's soybean acres have turned color--which is ahead of last year's twenty six percent at this time of year and the 5-year average of thirty-nine percent. Nine percent have begun to drop leaves with sixty-nine percent of the State's crop now rating good to excellent.

Strong Sugar Beet Harvest -- Surplus Beets

An estimated 451,000 acres of sugar beets were planted in Minnesota in 2010. Sugar beet cooperatives in the Red River Valley of eastern North Dakota and northwest Minnesota are anticipating record yields. It is possible that some processors may not accept the entire harvest for processing. The sugar beet yield is expected to be about 25.5 tons per acre, which would be near a record year.

New Grass Seed Program

Producers of Kentucky Bluegrass and perennial ryegrass seed in Northwest Minnesota have been working for several years to obtain crop insurance coverage. RMA has developed a multi-peril Grass Seed Pilot policy that will begin with the 2011 crop year in four Northwestern Minnesota Counties and two counties in North Dakota. Producers, agents and adjusters received training in Roseau, MN on August 31. Producers were encouraged to contact their agents soon since the sales closing date is September 30, 2010 for the 2011 crop year.

COMPLIANCE

National Program Operations Review (NPOR)

The regional Compliance Offices are continuing their reviews the following 2009 Approved Insurance Providers during 2010. Field reviews are being conducted nationwide and include interviews with policyholders, company personnel, agents, and adjusters who are identified with the selected policies.

CRCO- Hudson Insurance Company (HU)
MRCO- Agrinational Insurance Company (AN)
NRCO- Farmers Mutual Hail Company (FH)
SRCO - John Deere Risk Protection (PE)
WRCO- Stonington Insurance Company (ST)

On account of significant ongoing and anticipated OIG Audit and Investigation activity in the ERCO region, the ERCO will not be assigned a NPOR for this year. ERCO continues to engage problems in the Nursery program and has initiated a process to review problems identified with

the Tobacco program.

Tobacco Program Issues Under Review

As noted above, the Eastern Regional Compliance Office has initiated a review of the Tobacco crop insurance program in order to address identified program vulnerabilities associated primarily with shifting production between insured units and entities. Concurrently RMA is working across all the functions to address quality adjustment problems that have increased since the quota tobacco program was terminated. The present lack of independent graders and markets for tobacco has created an unacceptable vulnerability for the program, which if not corrected, may result in a recommendation to eliminate quality adjustment for tobacco entirely.

Compliance is currently looking at reports of similar problems with the Tobacco program in Kentucky and Tennessee.

Final Findings Issued Since the May Board Meeting

Since the last Board meeting Compliance has issued final findings to AIPs for the following amounts: premium overstatements \$41,815; indemnity overpayments \$141,253; and premium understatements of \$19,524. Additionally, a Compliance review in conjunction with Insurance Services, the Office of Inspector General for Investigations, Office of General Counsel, and the US Attorney's Office resulted in the case settlement amount noted below of \$495,634.

Recent Compliance Investigation, Appeals, and Sanction Activity

Producer - Richfield, KS – False Claims and Crop Insurance Fraud - OIG Case Closing:

On July 13, 2010, a Richfield, KS producer entered into a Settlement Agreement with three AIPs, the Federal Crop Insurance Corporation (FCIC), and the Commodity Credit Corporation (CCC) to settle all matters regarding the 2004 through 2009 participation with FCIC and in the Crop Disaster Program (CDP). The producer agreed to repay one AIP \$495,634 for indemnity payments received for crop year 2006 and repay the CCC \$80,000 in CDP payments.

Supplemental Revenue Assistance Program (SURE) Referrals

As of September 16, 2010, the regional Compliance Offices have received 2,017 SURE referrals from FSA, nearly 600 more than was reported to the Board in the August report. Compliance began receiving SURE program referrals from FSA in January 2010. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance anticipates that entity, reported acreage, and production discrepancies will constitute the majority of the referrals similar to our experience with the Crop Disaster Program.

Current Crop Disaster Program (CDP) Referrals

RMA continues to work to resolve the 6,761 CDP referrals received to date from Farm Service Agency offices. About half of these referrals result from policyholders reporting one entity to RMA and another to FSA. These referrals are the result of FSA identifying discrepancies noted between downloaded 2005, 2006, and 2007 crop year insurance data and data certified for farm programs at FSA.