United States Department of Agriculture

Federal Crop Insurance Corporation

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DATE: February 17, 2011

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 4009

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the February 17, 2011 meeting.

PROGRAM UPDATE:

Louisiana Sweet Potato Plan of Insurance: The Risk Management Agency released program materials and actuarial information for the Louisiana Sweet Potato Program plan of insurance on December 20, 2010. It is an Actual Production History (APH) plan of insurance and covers fresh market and processing sweet potatoes. The Louisiana Sweet Potato Program plan of insurance will be available for sale in Louisiana in the counties of Acadia, Avoyelles, Evangeline, Franklin, Morehouse, Rapides, Richland, St. Landry and West Carroll.

Bioenergy/Biofuel Initiatives - RMA will soon solicit contracts for the feasibility of developing crop insurance products for corn stover, other crop residues, and woody biomass (specifically poplar and willow trees) for use in bioenergy/biofuel production. In January the agency issued a memorandum in order to seek preparatory input from interested parties regarding the level of interest from the industry, availability of private insurance products, or any other relevant issues that should be considered when carrying out the feasibility and research for any potential program development. The period to submit correspondence closed Monday, February 14, 2011.

Subpart Y - Good Performance Refunds (GPR) – The public comment period for the proposed rule published in the Federal Register ended on January 21, 2011. The Product Administration and Standards Division (PASD) is categorizing the comments and assisting in preparing responses to such comments. In accordance with section 508(d)(3) of the Federal Crop Insurance Act, the GPR will return a portion of premium to producers with good insurance experience over a period of years.

ELS Cotton – The proposed rule comment period ended on January 18, 2011. The final rule only aligns quality adjustment language with the Upland Cotton Crop Provisions. The comments and responses to the final rule have been drafted and are in PASD's concurrence process.

Livestock Gross Margin for Dairy Cattle (LGM-Dairy): Sales have increased dramatically after Board approved changes were implemented for the second half of the 2011 reinsurance year. These changes included moving the premium payment to the end of the coverage period, and offering a subsidy to lower premium costs. Prior to the revisions LGM Dairy provided coverage for 1.6 million cwt of milk and after the revisions 19.0 million cwt are insured (see Table 1). The increase is sales has required RMA to monitor available livestock underwriting capacity closely, but to date no sales have been denied due to a lack of available capacity.

Table 1. LGM-Dairy Experience Prior to and After Board Approved Revisions

Time period	CWT Insured	Total Premium	Producer Subsidy	Producer Premium
Prior to 12/17/10	1,637,795	$524,393	$0	$524,393
After 12/17/10	17,386,823	$8,575,234	$3,494,165	$5,081,069
Total	19,024,618	$9,099,627	$3,494,165	$5,605,462

Acreage Crop Reporting and Streamlining Initiative (ACRSI): RMA is actively participating in the USDA Acreage Crop Reporting Streamlining Initiative to establish a common USDA framework for producer commodity reporting in support of USDA programs. This initiative is developing recommendations for common USDA producer commodity reporting standards, such as entity types, acreage reporting dates, and crop codes. These recommendations will facilitate greater use of the Comprehensive Information Management System (CIMS) and Agency sharing and reconciliation of data, along with potential incorporation of data obtained through the use of Precision Ag technology.
The initiative intends to simplify reporting processes, dates, and data definitions. Agencies participating in the ACRSI include RMA, FSA, NRCS, and NASS. One goal of ACRSI is the redesign of business processes and definitions to allow for common program participation information to be consolidated and redistributed across USDA. Another goal of ACRSI is to facilitate establishing a single USDA site, as an option for the producer to report acreage information. By streamlining and automating reporting, ACRSI would result in fewer burdens on the participating producers while simultaneously improving program integrity through consistent reporting and data across all USDA agencies and programs. Ultimately, ACRSI could allow for automated reporting from the producer's precision GPS monitoring equipment or farm management system. RMA procedures allow producers to use information from their Farm Management and Precision Ag systems to assist in meeting USDA reporting requirements for production, planted and harvested acreage. RMA is working with Precision Ag companies to refine its standards and compliance processes to continue to improve the ability of producers to use these systems for producer reporting to him USDA. To implement ACRSI in an economical manner, the agencies plan to expand CIMS, which provides RMA, FSA, NASS, OIG, other USDA agencies and participating crop insurance companies timely access to a single, centralized storage repository of RMA and FSA producer and program information. CIMS is increasing the reliability and accuracy of program data collection by providing users access to an integrated information management system containing crop insurance, conservation, and farm programs. In the past year, Federal users have made over 39,000 requests and the insurance companies have

submitted over 20 million requests for information on insured producers from CIMS.

Tobacco Program Issues Under Review
Representatives from the Product Administration and Standards Division met with representatives from the Burley Tobacco Growers Cooperative Association (BTGCA) and AgWin on January 18, 2011, in Kansas City, MO. The purpose of the meeting was to discuss possible solutions to quality adjustment problems with tobacco. For tobacco quality adjustment to be accurate and fair, damaged tobacco must be graded by a disinterested third party RMA is currently in discussions with representatives of the Agricultural Marketing Service (AMS) to determine the potential for their assistance. RMA is pursuing the viability of establishing tobacco quality adjustment discount charts similar to other crops; meaning production would be adjusted based on a specified grade. On March 3, 2011, a follow up meeting is scheduled in Kansas City with AgWin, and representatives from the AMS to further discuss options and a strategy for moving forward.

Double Cropping: RMA has drafted a proposed procedure that would apply to the 2011 crop year. It will not change any requirements for the 2010 crop year or earlier. The proposed procedure addresses the first crop/second crop rules and the qualifications of the insured double-cropping producer. In determining whether a producer had both first crop and second crop acreage records and wishes to qualify for the double-cropping exemption, the draft will allow the insurance company to prorate the combined production by liability (consistent with current procedure in the Loss Adjustment Manual for other purposes). This draft procedure would be to establish such separate records and the insurance company must assess that it is reasonable and acceptable that the combined production came from both the first crop and second crop acreage; therefore, allowing the exemption. RMA believes this will address most of the concerns of double-cropping producers who have a long-standing history of double-cropping practices.

IT UPDATE:

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.

INSURANCE SERVICES UPDATE:

Spring Flooding Concerns:
Minnesota/North Dakota: The National Weather Service (NWS) in Grand Forks released its "Probabilistic Hydrologic Outlook" February 1. Stating there is a "better than even chance" of moderate or major flooding in much of the Red River Valley this spring. "Major flooding is expected on all forecast locations on the main stem of the Red River of the North and on many

forecast locations on its Minnesota and North Dakota tributaries," according to the NWS report.
Iowa: On Thursday, January 27, 2011, the National Weather Service (NWS) offices serving Iowa released their first spring flood outlook. Highlights from the report are below:
Current information suggests that the greatest risk of significant flooding is along the Mississippi, Big Sioux and Floyd Rivers. Along the Mississippi River, there is greater than 50 percent chance of major flooding from the Minnesota border all the way down to Burlington. At many locations along the Mississippi, the risk exceeds 70 percent. Similar risk levels exist along the Big Sioux and Floyd Rivers.
Wisconsin: Flood concerns include the Black, Wisconsin, Trempealeau, and Mississippi River basins as well as the many tributaries in the area. After one of the wettest summers on record plus a very snowy winter, the concerns for flooding this spring are growing.

Cover Crops: In the Springfield RO region, generally insurance is not provided for corn or soybeans following another crop that has reached the headed or budded stage and/or that has been harvested in the same calendar year with the exception of some soybean counties that have a following another crop (FAC) practice. The increased use of cover crops in Illinois, Indiana, Michigan and Ohio can partially be attributed to an initiative announced by the Secretary last summer in Ohio to provide additional funding through cost share programs provided by the Natural Resources Conservation Service (NRCS). Beginning with the 2011 crop year, the RO will issue written agreements to producers to insure a crop that follows a cover crop as long as the cover crop is terminated by May 15. The RO has issued a Fact Sheet, press release, an Info Memo to the companies and held stakeholder meeting to get the information out to producers.

Barley Growers Price Concern: Barley growers petition to change the barley pricing mechanism for barley yield and revenue crop insurance policies. Barley industry representatives and producers have requested that RMA consider changes to the projected price under the Feed Barley Commodity Exchange Price Provisions document Currently the Chicago Board of Trade (CBOT) Corn price is factored by a relationship of National Agricultural Statistics Service (NASS) Barley to CBOT corn to arrive at the projected feed barley price. The barley growers have argued the correlation used by RMA negatively impacts barley prices and have asked RMA to consider other options. The barley industry requests a conversion factor that is a fair and accurate representation of the price relationship between corn and barley in the actual marketplace. They feel change is necessary to ensure RMA meets the overwhelming public interest of providing a level playing field between competing crops and to prevent government incentives that shift acreage from one crop to another based on better risk management tools. Under the current pricing scenario, wheat, corn and soybeans (in their opinion) will offer more attractive risk management tools, than barley, which causes lenders and growers to move acreage into these crops at the expense of barley. The National Barley growers met with RMA’s Administrator on this issue in September. Since then, the Spokane and Billings Regional Offices and Product Management Division representatives have been working with a barley industry contingent in the two regions to determine whether a better correlation can be developed.

Regional Irrigation Outlook: In California, record-breaking rainstorms (October – December) have filled the states reservoirs and created snowpack in the Sierra Mountains. January’s precipitation and snowpack were not as favorable. To date, reservoirs at Lake Shasta, Lake Oroville, and San Luis are at 111percent, 102percent, and 117percent of their historical averages. The California Department of Water Resources (DWR) announced that it will increase its 2011 water deliveries for the State Water Project to 60percent of the contractors' requests. DWR supplies water to 29 public agencies that serve more than 25 million Californians and a million acres of farmland. The projected water deliveries of the Central Valley Project (Bureau of Reclamation) are expected to deliver 100 percent of contracted water allotments to contract water users north of the Sacramento-San Joaquin Delta and 45 percent to contracted water users south of the Delta (Westlands Irrigation District). The Bureau of Reclamation is expected to inform water users of a later announced allocation this month. The state of California has experienced drought conditions since 2007. Crops potentially impacted by drought conditions are cotton, ELS cotton, wheat, onions, rice, corn, dry beans, safflower, potatoes, and barley in Nevada, the snowpack conditions in the Lower Humboldt Basin are well above average. The Rye Patch Reservoir storage was at 17 percent of average in comparison to 13 percent of average for the same time last year. The state of Nevada has experienced drought conditions since 2009. The Reservoir is the irrigation source for crops in Pershing County and provides for such crops as alfalfa, alfalfa seed, wheat, and pastureland.

Citrus Pest Detection in Ventura County: The detection of the Asian citrus psyllid has triggered quarantine in Ventura County. The pest was found in La Conchita, California. A treatment using a pesticide spray has been implemented. Ventura County has 24,000 acres of commercial citrus. The pest has been discovered in San Bernardino County, which has led to pesticide treatments in the Montclair and Upland areas earlier this month. Mandarin and lemon producers in particular are dealing with the imposed quarantine. The entire county has been placed under quarantine. There is prohibitive movement of nursery stock and the requirement of cleaning the fruit (including stems and leaves) before leaving the area. The psyllid is the vector for citrus greening, but the detections have not led to any signs of the disease.

Prevented Planting Policy Changes: RMA has determined that there is program vulnerability associated with crop acreage that is continually wet and may only be available for planting in abnormally dry years. In areas of Iowa, Minnesota, Montana, North and South Dakota in which the Prairie Pothole Region is specifically located, this type of acreage consists of potholes, which are full of water with surrounding acreage that has turned into marshes or wetlands that can only be cultivated in the late summer or fall. Producers can no longer plant this acreage during a normal spring planting season even though it may have been farmed in the 1970's and 1980's. RMA policy and procedure does not consider acreage in these areas "physically available for planting" due to the wetter climate experienced over the last 17 years, therefore the acreage is no longer eligible for prevented planting coverage. There is a perception of inconsistent delivery by approved crop insurance companies in part because they hesitate to enforce policy and procedural requirements for fear of losing business and because of the perceived inability to defend their decisions in arbitration hearings because of policy ambiguity. All farmers are paying the cost of higher premiums associated with the higher frequency of prevented planting losses, but only a small percentage of farmers are collecting the bulk of the indemnities. Farmers are frustrated when neighbors rent wet acreage with the intent of collecting a prevented planting indemnity and make no effort to plant. RMA is obligated to address fraud, waste and abuse per the Federal Crop Insurance Act; therefore the Billings RO, St. Paul RO and the Risk Management Services Division have worked together on a means to address these Prevented Planting issues. The Billings and St. Paul Regional Offices, hosted a series of listening sessions on this subject from November 2010 through January 2011 for grower organizations, State Ag Officials, approved crop insurance companies, FSA, NRCS and Members of Congress in the states encompassing the Prairie Pothole Region to discuss the Agency's concerns and to gather comments. The sessions also emphasized the intent of the prevented planting policy language and a proposed Special Provision of Insurance (SPOI) text which will primarily address situations where producers have not been able to plant acreage for several years because it is no longer physically available to plant in the spring. In part the proposed SPOI would state: "Acreage not considered physically available for planting includes, but is not limited to, the following: Any acreage not planted and harvested in at least one of the three most recent crop years, using recognized good farming practices, unless such acreage was planted to an insured crop that was damaged by an insured cause of loss and appraised for purposes of a claim under the Federal crop insurance program." Over all the majority of those individuals attending the sessions agreed that RMA needs to take this action to stop prevented planting insurance abuse and to clarify land eligibility for prevented planting coverage. Both regional offices have started the filing process to incorporate this SPOI statement into the five states in which the Prairie Pothole Region is located for **the** 2012 crop year.

REINSURANCE SERVICES UPDATE:

On November 18, 2010, RenaissanceRe Holdings Ltd. (Bermuda) the parent company to Stonington Insurance Company (Stonington), an approved insurance company, announced that it had entered into a definitive agreement with QBE Holdings, Inc. (QBE) (Australia) to sell its U.S. property and casualty business. This includes its crop insurance business underwritten through Agro National Inc., the managing general agent for Stonington, and Stonington itself. QBE anticipates final regulatory approval and completion of the acquisition in early March. On July 10, 2010, QBE completed the acquisition of another approved crop insurance company, NAU Country Insurance Company (NAU). After QBE's acquisition of the U.S. property and casualty business of RenaissanceRe Holdings Ltd. has been completed, the Federal crop insurance business under the Stonington 2011 Standard Reinsurance Agreement (SRA) will be merged with NAU and the Stonington SRA will be withdrawn.

COMPLIANCE UPDATE:

Program Integrity:
In conjunction with the improved quality control requirements in the new SRA, RMA Compliance has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone. RMA is currently reviewing company operations and internal controls to determine the success of their efforts to address crop insurance program vulnerability concerns and reduce common errors. Reviews conducted by RMA in response to the requirements of the Improper Payments Information Act of 2002, as amended, over the past seven years indicate that the program operates with an error rate of around 5percent. This compares favorably with the private Property and Casualty Insurance Industry that typically reports error rates between 15 and 20percent for those lines of business. The timing and quality of RMA's sanctions have improved as Compliance personnel become

more proficient at identifying evidence and establishing cases using current legal sufficiency requirements. The Administrative Sanctions regulations that were published and effective on January 20, 2009, have improved RMA's previous regulatory authorities as intended by the amendments to the Federal Crop Insurance Act. Although RMA was using statutory authority to impose sanctions before the regulations were published, the rule provides appropriate constructive notice to policyholders, adjusters, and sales agents. RMA pursues all administrative remedies available to address program violations and has been recognized in OIG Audits for the effective use of the government-wide suspension and debarment authority.

RMA is continually seeking new and more effective ways to work with the other regulatory bodies and government agencies as well as insurance companies, agents and producers to ensure the integrity of the Federal crop insurance program. RMA compliance reviews continue to reveal that there are only a small number of producers who have been involved in fraud or illicit activity. While no level of criminal or abusive behavior is acceptable, RMA continues to believe the number of persons involved in criminal activity is relatively small.

While RMA, FSA and the insurance providers have preempted tens of millions of dollars of improper payments through quality controls, data mining, and other measures, RMA is constantly identifying ways to balance competing needs to make our products less susceptible to fraud while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we are making good progress in our fight against program waste, fraud and abuse.

In the recent past, there have been some concerns expressed about unresolved Office of Inspector General (OIG) Audit recommendations. In particular, RMA was cited as having 70 OIG audit recommendations pending for a year or more after agencies agreed to implement them. However, according to RMA's records, there are now 11 audit recommendations that currently meet this criterion. RMA believes that both OIG and GAO audits have resulted in program improvements over the years and continues to commit significant resources to resolving and implementing audit recommendations that can reasonably be expected to achieve greater efficiency or effectiveness for the program and the taxpayer.

Data Mining:
RMA continues to make significant progress in preempting fraud, waste and abuse through the expanded use of data mining. RMA, through data mining and data warehousing, uses geospatial data, satellite data, National Oceanic and Atmospheric Administration official United States weather data, soil surveys, and mathematics and probability theory to support the Agency's underwriting and oversight activities. Programs such as the automated system that uses satellite data integrated with RMA and other USDA farm data to validate or identify anomalous crop losses will further enhance RMA's already considerable program integrity efforts. RMA continues to save hundreds of millions of dollars through its data mining program to identify anomalous producers, agents and loss adjusters. With assistance from the Farm Service Agency state and county offices, RMA and the participating crop insurance companies review producers' farm operations to ensure that the crop losses are valid.