United States Department of Agriculture

Farm and Foreign Agricultural Services

Risk Management Agency

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DATE: September 22, 2011

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /s/
Manager

SUBJECT: Manager's Report
Exhibit No. 4045

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the September 22, 2011 meeting.

Product Management Update

Common Acreage Reporting: The Acreage Crop Reporting Streamlining Initiative (ACRSI) continues to make progress towards providing streamlined and self-service solutions to producers for reporting program data. Agencies participating in the ACRSI include RMA, FSA, NRCS, and NASS. ACRSI objectives include providing producers options to report common data; standardizing data requirements across various farm programs; facilitating data sharing between farm programs; publishing the relevant data elements, definitions, and schema for government, public, and commercial industry consumption; and consolidating acreage reporting dates across commodities to the extent practical.

The ACRSI business area sub-teams have recommended the following: consolidate ANSI state and county location identifiers; standardize producer business types and attributes; designate the Common Land Unit (CLU) as the standard GIS dataset used to identify land nationwide; and consolidate production data elements and production evidence. The ACRSI Commodity Reporting subteam is finalizing recommendations for consolidated common Acreage Reporting Dates, and a consolidated Commodity Validation Table. The Governance sub-team has completed NIEM mappings and agriculture-exchange content models for producer entity, production, and land location recommendations; and has approved the ACRSI Data Governance Charter. The ACRSI team is now developing action plans to implement their recommendations upon approval.

The ACRSI team and the Comprehensive Information Management System (CIMS) have provided briefings and demonstrations of the producer reporting web application to FSA, OCIO, the Under Secretary, Deputy Under Secretary, RMA CIO and USDA CIO. The web application could support the initial roll-out of an ACRSI pilot program.

Currently FSA, RMA and crop insurance companies have access to the CIMS containing 5 years of RMA and FSA information, including producer reported data such as acreage reports. CIMS has hosted over 75,000 web sessions for FSA State and County offices, RMA, OIG and other USDA agency employees. These services are providing efficient and timely information for the administration of crop insurance, and FSA programs such as the Average Crop Revenue Election program.

The system has also processed over 40 million Approved Insurance Provider (AIP) data requests. These data requests reduce FSA resources and costs to provide hard copy information used to administer crop insurance policies. Every two months AIPs receive a geospatial file of the FSA CLU's that can be used in their mapping and acreage processing systems. In 2010, companies reported almost a third of their acreage by the CLU, which enhances reconciliation efforts for acreage reporting and other applications to administer programs for prevented planting and cause of loss verification.

Pasture, Rangeland and Forage Pilot (PRF) Update: As of September 5th there were 13,760 Rainfall Index-Pasture, Rangeland, and Forage policies sold covering 30,469,731 acres with $469,520,369 in total liability. There were also 2,008 Vegetation Index-Pasture, Rangeland, and Forage policies sold insuring 3,438,840 acres with a liability of $35,487,764.

As of September 1st, five Rainfall Index Intervals have been released for PRF with estimated indemnities of $105,958,860. Estimated summaries by state are noted in the below tables.

Rainfall Index Estimated Results Through the May/June Index Interval and Based on the Summary of Business as of 8/29/2011.

State	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity to Date*	Loss Ratio to Date
(01) AL	86.00%	59,471	$6,397,622	$780,755	$594,644	0.76
(06) CA	82.00%	184,353	$20,389,604	$9,603,975	$643,941	0.07
(08) CO	84.00%	1,269,721	$21,435,271	$4,090,324	$2,992,624	0.73
(12) FL	90.00%	690,004	$26,434,886	$5,292,103	$3,211,862	0.61
(13) GA	86.00%	21,795	$2,167,677	$309,690	$408,969	1.32
(20) KS	83.00%	164,198	$5,359,343	$865,471	$327,444	0.38
(29) MO	82.00%	51,249	$3,865,325	$532,044	$3,361	0.01
(30) MT	84.00%	3,640,020	$26,455,402	$4,344,975	$172,845	0.04
(37) NC	80.00%	28,597	$1,690,246	$181,549	$27,237	0.15
(38) ND	85.00%	2,153,023	$44,134,222	$7,212,046	$99,356	0.01
(36) NY	81.00%	4,900	$916,995	$73,502	$4,113	0.06
(40) OK	84.00%	262,854	$5,042,390	$891,068	$1,306,932	1.47
(42) PA	88.00%	37,980	$11,307,131	$1,183,311	$96,219	0.08
(45) SC	84.00%	5,958	$863,540	$104,616	$35,822	0.34
(48) TX	81.00%	21,842,871	$289,398,622	$66,966,295	$95,937,650	1.43
(51) VA	83.00%	44,004	$3,602,748	$377,834	$95,841	0.25
Total	**81.90%**	**30,460,996**	**$469,461,024**	**$102,809,558**	**$105,958,860**	**1.03**

***Estimates**

As of September 1st, four Vegetation Index Intervals have been released for PRF with estimated indemnities of $553,453 paid. Results under the Vegetation Index program for 2011 are limited as index intervals to insure are limited to periods of normal growth cycles (e.g. winter months are excluded in northern states).

Vegetation Index Estimated Results Through the April, May and June Index Interval and Based on the Summary of Business as of 8/29/2011.

State	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity to Date*	Loss Ratio to Date
(04) AZ	70.00%	28,423	$129,894	$17,523	$0	0.00
(08) CO	75.00%	97,000	$847,780	$92,616	$0	0.00
(16) ID	70.00%	4,654	$57,302	$5,328	$0	0.00
(31) NE	77.00%	326,602	$7,309,005	$745,871	$6,791	0.01
(35) NM	81.00%	1,227,138	$9,406,737	$1,647,000	$345,919	0.21
(41) OR	90.00%	15,793	$241,275	$36,113	$12,751	0.35
(46) SD	80.00%	636,256	$10,094,225	$1,317,866	$15,220	0.01
(56) WY	86.00%	1,090,028	$7,314,519	$1,304,250	$172,772	0.13
Total	**81.64%**	**3,425,894**	**$35,400,737**	**$5,166,567**	**$553,453**	**0.11**

*Estimates

Note: Not all intervals are offered in all states.

Nursery Program Evaluation: On April 15, 2011 the Acquisition Services Directorate awarded a new contract for the Nursery Crop Insurance Program Evaluation and Recommended Improvements to Watts and Associates. The kick off meeting was held on April 20, 2011. The purpose of this contract is to obtain an evaluation of the current nursery crop insurance program and obtain recommended improvements that can streamline the current program.

The Evaluation is well underway. Watts and Associates has conducted three listening sessions, two in Florida and one in Maryland, and has plans to conduct at least four more listening sessions in the near future. Watts and Associates continue to analyze data and are preparing language for the draft report, which is due early January.

Livestock Underwriting Capacity: RMA revised the underwriting capacity allocations that provide funds for administering livestock insurance plans. Livestock Risk Protection (LRP) for Feeder Cattle and LRP-Lamb have experienced increased sales over the last six months. For fiscal year 2011, a total of $20 million was available to support the expenses of all of the livestock insurance products.

As of September 13, 2011, FCIC had less than $92,000 of unused funding remaining for the 2011 fiscal year which ends September 30, 2011. RMA is continuing to monitor underwriting capacity and will make adjustments between the livestock products as necessary. As funding is depleted for each insurance product, sales will cease for that product until funds become available again beginning with the 2012 fiscal year. RMA computer systems will automatically cease sales once funding has been used for a particular livestock product.

Texas Citrus Tree: A new program for Texas Citrus Trees was approved by the FCIC Board of Directors in May 2011 and program materials were released on September 9, 2011, effective for the 2012 crop year. The new Texas Citrus Tree plan of insurance will replace a previous program that was available in Cameron, Hidalgo, and Willacy Counties in Texas. The new program will be available in the same counties and provide coverage for loss or damage to citrus trees. The sales closing date for this coverage is November 20, 2011.

Financial and Operational Oversight: RMA enhances program integrity and oversight through its efforts in performing National Financial and Operational Reviews (NFORs). The objectives of the NFORs are to determine the ongoing financial stability of Approved Insurance Providers (AIPs) as well as to evaluate AIPs overall operations in accordance with the Standard Reinsurance Agreement (SRA). RMA performed six NFORs during FY 2011 and plans to perform six NFORs during FY 2012. RMA also evaluated 15 Standard Reinsurance Agreement Plans of Operation recommending approval of 15 companies, and evaluated 11 Livestock Reinsurance Agreement Plans of Operation and recommending approval of 11 companies.

Fostering Relationships with the NAIC and State Insurance Regulators: RMA enhances and fosters an ongoing reciprocal relationship with the National Association of Insurance Commissioners and state insurance regulators. RMA has recently received access and training on the NAIC's Internet State Interface Technology Enhancement (ISITE) system which is the NAIC's insurance company data repository. RMA has incorporated this data into the annual and quarterly financial analysis process.

Regulations:

Catastrophic Risk Protection Endorsement (CAT): The proposed rule was published in the Federal Register on August 17, 2011, with a 60 day public comment period. The proposed rule updates language in the CAT Endorsement to be consistent with the 2011 Common Crop Insurance Policy Basic Provisions and the area plans of insurance.

Area Risk Protection Insurance: The public comment period for the proposed rule published in the Federal Register on July 22, 2011 ends on September 20, 2011. The proposed rule replaces the Group Risk Plan (GRP) provisions in CFR part 407, which includes the following GRP policy materials: Basic Provisions, Barley Crop Provisions, Corn Crop Provisions, Cotton Crop Provisions, Forage Crop Provisions, Peanut Crop Provisions, Sorghum Crop Provisions, Soybean Crop Provisions, and Wheat Crop Provisions, with a new Area Risk Protection Insurance (ARPI) Basic Provisions and ARPI Crop Provisions for each of these crops except Barley and Peanuts.

The new ARPI provisions will also replace the Group Risk Income Protection (GRIP) Basic Provisions, the GRIP Crop Provisions, and the GRIP-Harvest Revenue Option (GRIP-HRO). ARPI will offer producers a choice of Area Revenue Protection, Area Revenue Protection with the Harvest Price Exclusion, or Area Yield Protection, all within one Basic Provision and applicable Crop Provisions. This will reduce the amount of information producers must read to determine the best risk management tool for their operation and will improve the provisions to better meet the needs of producers. The final rule is targeted to be in effect for the 2013 crop year.

Onion Policy: The public comment period for the onion policy proposed rule was published in the Federal Register on July 21, 2011 ends on September 9, 2011. The proposed rule provides coverage for processing onions, allows for expansion of the onion program to additional states and counties, and clarifies indemnity calculations. The final rule is targeted for the 2013 crop year.

REGIONAL OFFICES (RO) UPDATE

Regional Southwest Drought Concerns:

The drought of 2011, recognized as equivalent to the dust bowl of the 1930's, is now beginning to carry over to 2012. Extended forecasts do not foresee any significant changes in the weather patterns until possibly next spring. Fall crop planting dates are quickly approaching with a large portion of the region with little if any subsoil moisture for seed germination or plant emergence. Adequate water to maintain 2012 irrigation requirements are also becoming a significant concern. The drought has had a substantial effect on future water reserves throughout the region. It's full impact will not become fully apparent until next spring, the heaviest period of irrigation use in the Region.

Ag publications are beginning to pop-up that attempt to evaluate and sometimes provide advice on planting options producers are being faced with under current crop conditions. Some of the advice being offered about Crop Insurance provisions are not accurate or are misleading. We met with AgriLife Extension in Oklahoma on Tuesday, September 14, to discuss prevented planting provisions as they apply to current crop conditions in Oklahoma. Work is also being done to prepare a proposed Informational Memorandum for the Region that assesses planting options and applicable Crop insurance program provisions. This will be ready for posting on the Regional Office website the week of September 19, 2011.

Early Frost in the Upper Midwest:

Early Frost Damage: Widespread frost around September 15 in Minnesota, and parts of Iowa and Wisconsin could significantly damage corn and soybean crops. In Minnesota, it was a freeze to hard frost across the entire state, which was aggravated by the wet spring and late planting. Early estimates indicate Minnesota soybean farmers may have lost 10% of their crop yield. The corn crop had not yet reached black layer (safe from frost) which will likely result in low test weight corn. RMA's new corn test weight chart , which is extended from 46 lbs/bu down to 40 lbs/bu , may be tested this year in our Region. In the new chart, the corn test weight must fall below 40 lbs/bu before a 0.500 Discount Factor will apply for unsold production.

Iowa Flooding Issues: The St Paul RO Deputy Director and a Risk Management Specialists travelled to Iowa flood affected areas September 12-14 to speak at flood meetings in Fremont and Mills Counties. Also speaking were FSA, NRCS, and the Iowa State Extension Service. Iowa Congressman Steve King's Agricultural Representative was also present and spoke at the meetings. The St Paul RO will also participate in a meeting September 20 in West Pottawattamie County. Producers are concerned about 2012 clean up, potential flooding, infrastructure damage, crop insurance coverage, prevented planting, and the potential for rates to increase where breached levees have not been repaired.

South Dakota Secretary of Agriculture Meeting:

On August 30, the Billings Regional Office Director met with the South Dakota Secretary of Agriculture and discussed Prevented Planting issues. The Secretary had concerns about how some of the prevented planting rules affect some producers. He had two ideas or recommendations.

1) The Secretary would prefer Congress to change the Crop Insurance Act to allow livestock producers to utilize prevented planting acreage to grow and harvest feed crops for their own needs without a reduction in the

prevented planting payment. Livestock producers are concerned over the lack of forage as a result of significant flooding in low lying hay fields and prevented planting of forage crops. RMA cannot enact a change such as this without legislation that would change the Federal Crop Insurance Act.

2) In areas that have sustained wet and flooding conditions for prolonged periods of time, farmers are unable to qualify for continued coverage under crop insurance or the Conservation Reserve Program. The Secretary is proposing a Rental Rate Recovery program be made available for these farmers. The farmer could receive a percentage of the cash rent value. It would assist in paying taxes, making land payments and therefore keeping the land. This type of program would probably not fall under the crop insurance umbrella, but could perhaps be administered by another agency, like FSA or NRCS.

New Special Provisions of Insurance Statement for New Breaking Land:
For 2013 in much of the upper Mid-West, newly broken land that would have previously needed a written agreement in order to be insurable, can now be insured without a written agreement if all of five conditions are met and documented by the AIP:

1) At least 75% of the field's soil types must be NRCS Capability Class IV or better.
2) The field must have been broken out by a certain date prior to being planted.
3) The acreage must have been previously farmed at some point in the past.
4) The acreage must have an NRCS conservation plan, if required.
5) The newly broken acreage cannot exceed 160 acres.

Any newly broken acreage that does not meet these conditions will continue to be reviewed by RMA through the written agreement request process. This will greatly reduce the time and cost for producers, agents, AIPs and RMA while still maintaining the integrity of the insurance coverage on newly broken acreage.

Prevented Planting Update for FSA:
On August 23, the Billings RO provided an update on Prevented Planting for the North Dakota and South Dakota State FSA staffs. With the large amount of prevented planting acres in the region this year, the meeting provided the FSA staff with the latest information on RMA's prevented planting crop insurance coverage. The FSA state offices requested this training in order to help them administer their FSA programs as well as helping them to disseminate the prevented planting eligibility rules to the farming communities.

COMPLIANCE UPDATE

Final Findings Issued Since the August 2011 Board Meeting
Since the last Board meeting Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements - $63,842; indemnity overpayments - $1,024,298; premium understatements - $940; indemnity underpayments - $35; criminal recoveries - $89,033; and indemnity cost avoidance $58,228.

Program Integrity: On September 8, 2011, US District Court Judge James C. Denver, III, Eastern District of North Carolina, sentenced Gregory Canady (CANADY), a farmer from Lumberton, North Carolina to a 1-day incarceration and three year probation. CANADY was also ordered to pay restitution as follows: RMA- $89,033, FSA-$34,774, and ARMTech Insurance Company-$10,268. The Judge also ordered a two year exclusion from USDA programs beginning in 2011. In January 2011, CANADY pled guilty to one count of 18 USC 1014, False Statements in Connection with the Federal Crop Insurance Program, and aiding and abetting, and one count of 18 USC 1001, Material

False Statements in Connection with the Crop Disaster Program. CANADY worked with Robert Carl Stokes, a crop insurance agent, to defraud the Federal crop insurance and crop disaster programs in connection with his 2006 crop year tobacco crop.

Quality Control and $100K Indemnity Reviews: On September 2, 2011, Strategic Data Acquisition and Analysis (SDAA) delivered work product WO-11-064 to the Deputy Administrator of Compliance that provided a list of policies in Texas to exempt from the $100,000 quality control review. Approved Insurance Providers had requested relief from these quality control reviews because of the excessive number of claims resulting from the severe drought in Texas. The Center for Agribusiness Excellence used the producer scoring and county scoring systems to identify low and high risk polices. The producer scoring system scores the producers on a scale from 1 to 50. Producers that show anomalous claims patterns from their peers will have the higher scores. Producer scores may vary depending upon the county where the crop was grown, therefore, to identify the most anomalous policies the producer's score was compared to the average county score. The list of Texas policies with liabilities exceeding $100,000 that will not require a $100K indemnity review for this year was transmitted via the RO Server to the Approved Insurance Providers with qualifying polices.

National Program Operations Review (NPOR): The regional Compliance Offices are wrapping up their field reviews of selected policies sold and serviced by the following Approved Insurance Providers for the 2010 crop year. Field reviews have been ongoing nationwide to include interviews with policyholders, company personnel, agents, and adjusters identified with the selected random and judgmentally selected policies.

<u>2010 Crop Year</u>
CRCO- American Agri-Business Insurance Company (WN)
MRCO- Great American Insurance Company (GA)
NRCO- NAU Country Insurance Company (NA)
SRCO - Producers Agriculture Insurance Company (PL)
WRCO- Austin Mutual Insurance Company (AU)

The 2009 policy reviews have been finalized and the NPOR reports issued or are being drafted for issuance to the respective Companies and the Reinsurance Services Division.

<u>2009 Crop Year</u>
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)

Due to significant ongoing and anticipated OIG Audit and Investigation activity in the ERCO region, the ERCO was not assigned a NPOR for 2009 or 2010. ERCO continues to engage issues involving the Nursery program and the data mining assisted review of problems identified with the Tobacco insurance program (see below).

Tobacco Program Issues Under Review: The Eastern Regional Compliance Office is reviewing 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 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. RMA will use data mining to review the Tobacco program experience for 2010 compared with previous years to determine if the impact of these quality control reviews can be recognized and quantified. Compliance is currently looking at reports of similar problems with the Tobacco program in Kentucky and Tennessee.

Supplemental Revenue Assistance Program (SURE) Referrals: As of September 13, 2011, the regional Compliance Offices have received 5,451 SURE referrals from FSA or about 600 more than was reported to the Board in the May report. Compliance began receiving 2008 crop year 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. Compliance is currently receiving referrals for the 2009 crop year as a result of FSA opening that crop year for SURE participation.