

United States  
Department of  
Agriculture



Federal Crop  
Insurance  
Corporation



Risk  
Management  
Agency



Product  
Administration and  
Standards Division

FCIC 24280  
(11-2011)

# **COTTONSEED (PILOT) ENDORSEMENT INSURANCE STANDARDS HANDBOOK**

## **2012 and Succeeding Crop Years**



**UNITED STATES DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250**

<b>TITLE: Cottonseed (Pilot) Endorsement Program Insurance Standards Handbook</b>	<b>NUMBER: 24280</b>
<b>EFFECTIVE DATE: 2012 and Succeeding Crop Years</b>	<b>ISSUE DATE: November 23, 2011</b>
<b>SUBJECT:</b>  <b>Provides the procedures and instructions for administering the Cottonseed (Pilot) Program Underwriting Standards</b>	<b>Product Administration and Standards Division</b>
	<b>APPROVED: November 23, 2011</b>  <b>/s/ Tim B. Witt</b>  <b>Deputy Administrator, Product Management</b>

**Reason for Issuance**

This handbook provides the official FCIC-approved 2012 and succeeding crop years underwriting and administration standards for the Cottonseed (Pilot) Endorsement. All approved insurance providers electing to offer the Cottonseed (Pilot) Endorsement must utilize these standards.



**COTTONSEED (PILOT) ENDORSEMENT PROGRAM**

**INSURANCE STANDARDS HANDBOOK**

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INSURANCE STANDARDS HANDBOOK**

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## Part 1 General Information and Responsibilities

### 1 General Information

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#### A. Purpose

The Cottonseed (Pilot) Insurance Standards Handbook provides instructions for establishing coverage in accordance with the Cottonseed (Pilot) Endorsement. This Handbook supplements the Crop Insurance Handbook (CIH) (12-18010) and the Loss Adjustment Manual (LAM) (FCIC 25010-1 10-2011) via exceptions, changes, and additions which are included in this underwriting guide. If there is a conflict between the underwriting guide and the CIH or the LAM, the underwriting guide will control.

#### B. Source of Authority

The Cottonseed (Pilot) is a product based on approval by the FCIC Board of Directors of a submitted development to extend and enhance the coverage for producers of AUP and ELS cotton. This handbook provides the FCIC-approved procedures for administering the Pilot.

#### C. Duration

The Pilot will terminate at the end of the 2015 crop year, unless cancelled earlier or extended by FCIC.

#### D. AIP Option to Offer

Because it is a pilot, AIPs are not required to offer the Cottonseed (Pilot) Program to potential insureds. Accordingly, each AIP must determine whether it will offer the Pilot in the pilot area. AIPs that elect to offer the Pilot must offer it to all eligible insureds in the pilot area, and must administer the program according to the procedures in this handbook.

#### E. Pilot Area

The Pilot Cottonseed Endorsement Pilot Program is available to producers when a conversion factor and type are included in the actuarial documents for the county.

#### F. Applying for Cottonseed (Pilot) Program

Use the standard application. The application must indicate the insured has selected the Cottonseed (Pilot) Endorsement along with the other required information.

## **G. AIPs and Agents**

For the purposes of the Pilot, AIPs may authorize contracted agents to perform all functions and actions authorized by the Crop Insurance Handbook as supplemented by the instructions in this Guide.

## **2 Responsibilities**

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### **A. AIP Responsibilities**

AIPs electing to offer the Cottonseed (Pilot) insurance program must:

- offer it to all eligible producers in the pilot area.
- provide each insured a copy of the insurance documents

### **B. Insured's Responsibilities**

To be eligible for the Cottonseed (Pilot) insurance program, insureds must:

- elect the option on the application or contract change form
- comply with all terms and conditions of the Crop Provisions and the Endorsement

## **3-20 (Reserved)**

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## Part 2 Eligibility

### 21 Cottonseed (Pilot) Program

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#### A. Applicability

All acreage that meets the requirements for insurability for cotton lint is eligible for cottonseed coverage.

#### B. Eligibility Requirements

1. To be eligible for the Pilot Cottonseed Endorsement program, all of the following must be met.
  - The insured must have either a Cotton Crop Provisions or an ELS Cotton Crop Provisions in force; and
  - The insured must comply with all terms and conditions of the respective Crop Provisions and the Endorsement.
2. The Endorsement may attach to any cotton or ELS cotton policy that has an additional coverage level.
3. Acreage is not eligible for insurance if the insured chooses the catastrophic level of coverage pursuant to the provision of the Catastrophic Risk Protection Endorsement that restricts availability of options and endorsements. However, if the insured excludes high-risk acreage from an additional coverage policy and includes it under a CAT policy, the Endorsement will apply to such acreage with the same level of protection as the buy-up policy. The CAT level of protection applies only to the cotton lint.

#### C. Types Insurable

Cottonseed from any insurable type of cotton lint may be insured under this Endorsement.

#### D. Insurable Practices

All practices insurable for cotton lint are insurable under the Endorsement.

#### E. Units

The unit structure established for cotton lint applies to cottonseed. Each cottonseed production guarantee will be included within the same unit as the cotton lint from

which the approved yield of cottonseed is derived. Separate units for cottonseed may not be established.

**F. Coverage Levels**

Coverage will be available in 5 percent (5%) increments from 50 percent (50%) to 85 percent (85%) and follows the coverage levels available for the eligible crop in the county. Catastrophic (CAT) coverage is not offered. The coverage level applicable to this endorsement shall be equal to the coverage level selected for the underlying cotton lint policy for all insured acreage.

**G. Price Elections**

The price election for this endorsement shall always be equal to 100 percent of the announced Cottonseed Endorsement Price regardless of the insured's choice of a percentage of the price election if he or she chooses yield protection.

**H. Insurance Dates**

The Cottonseed Endorsement must be selected by the insured on or before the cancellation date for an eligible crop provisions for the first year it is to be effective. Thereafter, it renews automatically unless the selection is cancelled by the insured or by the provider or the policy terminates. The Endorsement may be cancelled without cancelling the eligible crop provisions. The production reporting date and the acreage reporting date do not apply to cottonseed. The production report and the acreage report under the eligible crop provisions are sufficient. All other dates applicable to the AUP or ELS cotton crop are applicable to cottonseed.

**I. Insurable and Uninsurable Causes of Loss**

The causes of loss included under the eligible Crop Provisions apply under the Endorsement. The same uninsurable causes of loss apply.

**J. Premium Rates**

The premium rate for cottonseed is the same premium rate charged for the cotton lint insured under yield protection (plan code 01). The insured may choose revenue protection (plan codes 02 or 03) for the cotton lint; however, the premium rate and the amount of premium for the Endorsement are restricted to the values appropriate for plan code 01. All factors affecting the premium rate and premium for the cotton lint (rate yield, yield cup surcharge, etc.) also affect the premium rate and premium for cottonseed. Detailed premium calculations may be found in RMA's Cost Estimator at

<http://ewebapp.rma.usda.gov/apps/costestimator/Estimates/DetailedEstimate.aspx>. To use the application, choose a state and a county, choose cotton as the crop, and then choose SE Seed Endorsement under Options by Commodity. After the calculations are complete, choose Worksheets and then choose the tab labeled Cottonseed SE.

**K. Subsidy Rate**

The subsidy rate applicable to cottonseed is the same as the subsidy rate applicable to the cotton lint for the selected coverage level.

**L. T-yields and Yield Substitutions**

T-yields are not provided for cottonseed. The cottonseed approved yield is determined by multiplying the approved yield for cotton lint by the conversion factor included in the Special Provisions. Any needed T-yields will be applied to the cotton lint production database to determine the approved yield for cotton lint. Similarly, any yield substitutions will be made to the production database for cotton lint to determine the approved yield for the cotton lint. The cottonseed conversion factor will be applied to the approved yield for the cotton lint.

**M. Quality Adjustment**

Quality adjustment does not apply to cottonseed. The production to count cottonseed is equal to the total pounds of cotton lint before quality adjustment multiplied by the cottonseed conversion factor.

**N. Effect on the Standard Reinsurance Agreement**

The Standard Reinsurance Agreement (SRA) allows the AIP to designate eligible crop insurance contracts to the Assigned Risk Fund. The term eligible crop insurance contract “means an insurance contract with an eligible producer: (1) covering an agricultural commodity authorized to be insured under the Act and approved for sale by FCIC; ...” The terms of the Cottonseed Endorsement require that either a Cotton Crop Provisions or an ELS Cotton Crop Provisions be in force before the Endorsement may be elected. Either Cotton or ELS Cotton is the “agricultural commodity authorized to be insured under the Act” and hence is the eligible crop insurance contract that may be designated. The cotton contract *in its entirety* will be placed in the Assigned Risk Fund if so designated by the AIP. Cottonseed may not be separately designated under the SRA. The Cottonseed Endorsement is no more eligible for separate designation than is the Malting Barley Price and Quality Option.

**O. Administrative Fees**

There is one administrative fee for cottonseed for each administrative fee that applies to the cotton lint. See section 2H(2) of the CIH for an explanation of applicable fees. If cotton lint and cottonseed are insured in a county, two fees are owed (CIH section

2H(2)(f)). If high risk land is excluded and insured under a CAT endorsement, four fees are owed (CIH section 2H(2)(b)). If the added county election is made and the high risk land exclusion is exercised, six fees are owed (CIH sections 2H(2)(b) and 2H(2)(d)).

**P. Written Agreements**

Written agreements to change the terms of the Endorsement are not permitted. However, if a written agreement is issued for the cotton lint (including an extension of coverage to a county where actuarial materials are not filed), the Endorsement may be elected. A separately issued written agreement for the cottonseed is not required. The terms, t-yields, premium rates, etc., applicable to the cotton lint under the terms of the written agreement apply to the cottonseed.

**22 – 30 (Reserved)**

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## Part 3 Applicability of Handbooks

### Section 1 Crop Insurance Handbook (CIH)

#### 31 General Information

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Part 3 of this Underwriting Guide identifies information specific to the applicability of the Crop Insurance Handbook (FCIC 18010)(08-2011, the Loss Adjustment Manual (FCIC 25010), and any other issuance that may require supplemental information with regard to cottonseed. Unless specifically amended or supplemented by information in this Underwriting Guide, all policy and procedure issuances apply. Section 1 addresses the CIH.

#### 32 Specific Information Regarding the CIH

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##### A. CIH Section 2 General Program Requirements

Specific additions to CIH Section 2 are itemized below.

CIH  
Section  
Reference

2H(2(a)      A separate administrative fee is required if the insured elects the Endorsement.

##### B. CIH Section 4 Endorsements and Options

Specific additions to CIH Section 4 are itemized below.

CIH  
Section  
Reference

New              Cottonseed Endorsement

The Cottonseed Endorsement, if elected, attaches to the Cotton Crop Provisions or the ELS Cotton Crop Provisions, as appropriate. The Endorsement increases the amount of insurance for a unit by including the cottonseed separated from the cotton lint during the ginning process. The Endorsement must be elected on a policy basis.

(1)      **Deadlines.**

- (a) Application. The Endorsement must be elected on or before the SCD. This option is continuous once elected, unless canceled. This option only applies to policies with additional coverage.
- (b) Cancellation. The option may be canceled for any succeeding crop year by giving written notice on or before the cancellation date provided by the eligible crop provisions.
- (c) Transfer. If the policy is transferred to a different AIP, a new option must be signed by insured and submitted to the AIP on or before the applicable SCD.

**C. CIH Section 6 Servicing and Administrative Requirements**

Specific additions to CIH Section 6 are itemized below.

CIH  
Section  
Reference

- 6B Acreage Report. A separate acreage report is not required for cottonseed. The insured acreage of cottonseed is the same as the insured acreage of cotton lint.
- 6C Assignment of Indemnity. An assignment of indemnity may not be executed solely for cottonseed.
- 6D Assignment of Coverage and Right to an Indemnity. An assignment of coverage and right to an indemnity may not be executed solely for cottonseed.

**D. CIH Section 7 Underwriting Responsibilities (Category B and C Crops)**

All responsibilities and procedures described in Section 7 pertain to cotton lint. Approved yields, production guarantees, and amounts of loss for cottonseed are derived from the appropriate values determined for cotton lint.

**E. CIH Section 8 Mediation, Arbitration, and Judicial Reviews of AIP Determinations**

Requests for mediation, arbitration, and judicial reviews of AIP determinations for cottonseed are not authorized. Such requests must be based on the determinations with respect to the cotton lint.

**F. CIH Section 9 Planting Provisions**

Specific changes and additions to Section 9 of the CIH are itemized below:

CIH  
Section  
Reference

9B(2) Late Planting. Provisions applicable to cotton also apply to cottonseed.

9C Prevented Planting. Provisions applicable to cotton also apply to cottonseed.

**G. CIH Section 10. Units**

Separate units are not authorized for cottonseed. The guarantee for cottonseed will be included within the unit from which the approved yield of cotton lint was used to establish the cottonseed approved yield.

**H. CIH Section 12 Underwriting Rules for Specific Practices**

Specific changes and additions to Section 12 of the CIH are itemized below:

CIH  
Section  
Reference

12C(4) Skip-Row Planted Cotton and ELS Cotton. The planted acreage for cotton lint applies to cottonseed. Apply the appropriate skip-row conversion factor to the approved yield for cotton lint in accordance with the CIH instructions. Multiply this result by the conversion factor for cottonseed.

**I. CIH Section 13 Production Reports and APH Databases**

A production report is not required for cottonseed. An APH database is not required. Follow the instructions in Section 13 to obtain a production report for cotton lint and establish a database for cotton lint. Determine the approved yield for cotton lint and multiply that result by the conversion factor to establish the approved yield for cottonseed.

**J. CIH Section 14 Production Evidence**

A certification of production of cottonseed is not required; therefore, production evidence is not required except in case of loss. Only the production of cotton lint must meet the production evidence requirements.

**K. CIH Section 15 Category B Crop Procedures**

Apply the procedures to the cotton lint. Determine the approved yield for cotton lint and multiply that result by the conversion factor.

**L. CIH Section 17 APH Yield Adjustment**

Make any YA yield substitutions to the yields for cotton lint.

**M. CIH Section 18 Yield Reductions**

Apply the procedures of Section 18 to the yields of cotton lint.

**N. CIH Section 19 Reviewing and Correcting APH Yields**

Apply the procedures of Section 19 to the yields of cotton lint only.

**O. CIH Exhibit 2C Written Agreement Deadlines and Required Documentation**

Written Agreements to change the terms of the Endorsement are not authorized. A Written Agreement applicable to the cotton lint coverage shall be applicable to the cottonseed coverage also.

**33-35 (Reserved)**

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**Section 2 Prevented Planting Loss Adjustment Standards Handbook**

**36 Additional Information to the Prevented Planting Handbook (FCIC-25370) for Cottonseed Only**

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An additional payment is allowed for prevented planting acreage of cotton lint. Any acreage that qualifies for a prevented planting payment of cotton lint will receive an additional prevented planting payment under the cottonseed endorsement based on the cottonseed endorsement price times the cotton lint prevented planting coverage. The qualifying prevented planting acres apply to both the cotton lint and the cottonseed. No additional qualifying acres are needed.

**Section 3 Loss Adjustment Manual Standards Handbook**

**37 Supplemental Instructions for the AUP and ELS Cotton Loss Adjustment Standards (FCIC-25090-1 (11-2010))**

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LASH



Section  
Reference

3 INSURANCE CONTRACT INFORMATION

3A INSURABILITY

Add (4) Cottonseed Endorsement. The insured may elect to insure cottonseed for payment of additional premium. All conditions of insurability for cotton lint apply to cottonseed.

3D QUALITY ADJUSTMENT

Add the following: Quality adjustment does not apply to cottonseed.

3E AUP AND ELS INSTRUCTION DESIGNATIONS

Add the following: Instructions for cottonseed apply for both AUP and ELS cotton.

8 APPRAISAL WORKSHEET ENTRIES AND COMPLETION PROCEDURES

8C FORM ENTRIES AND COMPLETION INFORMATION

There are no special appraisal procedures for Cottonseed.

9D CLAIM PROCESSING FOR COTTONSEED

The adjuster will not complete a separate Production Worksheet for Cottonseed.

Complete the applicable AUP or ELS cotton Production Worksheet using the instructions in the AUP & ELS cotton loss adjustment standards handbook. The adjuster will note in the Narrative of the AUP or ELS Production Worksheet that the insured has the Cottonseed Endorsement, if applicable. The indemnity for Cottonseed will be based on information from the AUP or ELS cotton Production Worksheet.

The AIP will obtain data from the applicable AUP or ELS cotton Production Worksheet in order to calculate the Cottonseed production to count.

These instructions describe what data the AIP will use from the AUP or ELS Cotton Production Worksheet to calculate the Cottonseed production to count that will be sent to RMA.

- (1) Add total of column 34 to total of column 37 from the AUP or ELS Cotton Production Worksheet. These totals are found in item 42 (Totals.)

- (2) The result of (1) above becomes the Section I Total for item 69.
- (3) The total of entries in column 63 will be the entry for item 67. The entry in item 67 is used as the entry for item 68 (Section II Total.)
- (4) Add the second step (item 69) to the third step (item 68) to determine item 70 (Unit Total.) Multiply this figure by the Cottonseed conversion factor. This is the Cottonseed production to count to send to RMA.

**38-39 (Reserved)**

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## 40 Examples of calculation of Guarantee

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### A. Solid Planted Cotton

Assume the insured has one unit with an approved cotton lint yield of 600 lbs. per acre. The conversion factor published in the Special Provisions is 1.40. The additional value price election is \$0.08 per lb.

The insured chooses the 75% coverage level. There are 100 acres in the unit. Share is 100%.

The approved yield for cottonseed is 600 lbs. X 1.40 = 840 lbs. per acre.

The production guarantee for cottonseed is 840 lbs. X 0.75 = 630 lbs. per acre

The liability for cottonseed is 630 lbs. X 100 acres x \$0.08 x 1.000 share = \$5,040.

### B. Skip-Row Planted

Assume the same data as provided in A, but the cotton crop is to be planted with a 2X1 skip-row pattern. The percent planted factor is 0.667 and the yield conversion factor is 1.35.

The approved yield for cottonseed (solid planted basis) remains 840 lbs per acre.

The production guarantee for cottonseed is 840 lbs. x 1.35 x 0.75 = 851 lbs. per acre

The liability for cottonseed is 851 lbs. x 100 acres x 0.667 x \$0.08 x 1.000 share = \$4,541

## 41-43 (Reserved)

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## 44 Example of Calculation of Premium

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The premium rate applicable to cottonseed is the same rate determined for the cotton lint. Hence, determine the premium rate for the cotton lint and apply the same result to the liability for cottonseed.

## 45-47 (Reserved)

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## 48 Sample Indemnity Calculations

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Assume the unit produces only 30,000 lbs. of cotton lint per acre as a result of an insured cause of loss, which is reduced to 25,000 lbs. due to quality adjustment. The indemnity for cottonseed will be calculated as follows:

**A. Solid Planted Basis**

630 lbs./acre X 100 acres = 63,000 lbs.

30,000 lbs. X 1.40 = 42,000 lbs. cottonseed production to count (calculation is based on lint production to count before quality adjustment)

63,000 lbs. – 42,000 lbs. = 21,000 lbs. unit deficiency

21,000 lbs. X \$0.08 X 1.000 share = \$1,680 indemnity.

**B. Skip-Row Planted**

851 lbs./acre x 66.7 acres = 56,762 lbs.

30,000 lbs. x 1.40 = 42,000 lbs.

56,762 lbs. – 42,000 lbs. = 14,762 lbs. unit deficiency

14,762 lbs. x \$0.08 x 1.000 share = \$1,181

**49-99 (Reserved)**

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**Acronyms**

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The following table provides approved acronyms used in this handbook.

<b>Approved Acronyms</b>	<b>Term</b>
AIP	Approved Insurance Provider
APH	Actual Production History
AUP	American Upland Cotton
ELS	Extra Long Staple Cotton
SCD	Sales Closing Date

## Definitions

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The following are definitions of terms used in this handbook.

Agent means the same as the term defined in the Standard Reinsurance Agreement.

Approved Insurance Provider means approved insurance provider as defined in the Federal Crop Insurance Act. For the purposes of this handbook, approved insurance provider includes managing general agents as defined in the Standard Reinsurance Agreement.

Approved Yield – In lieu of the definition contained in the Basic Provisions, the result of multiplying the approved yield for cotton lint (solid planted basis) by a conversion factor contained in the Special Provisions.

Cotton Lint – The fiber that is separated from the cottonseeds by a cotton gin and that is the commodity insured under an eligible Crop Provisions.

Eligible Crop Provisions – Any of the following: Cotton Crop Provisions (11-0021) and ELS Cotton Crop Provisions (12-0022).