

Crop Insurance Update

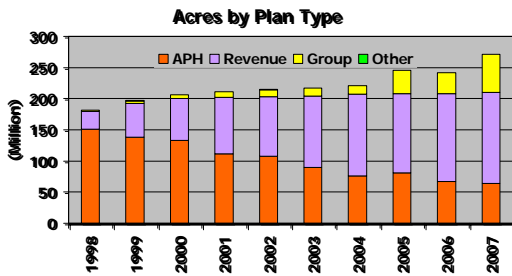
Colorado, Nebraska, Kansas

Bill Murphy - RMA

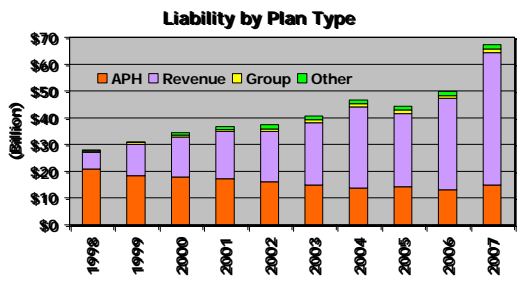
Overview

- COMBO
- Farm Bill: Issues that will impact you
- Products to watch

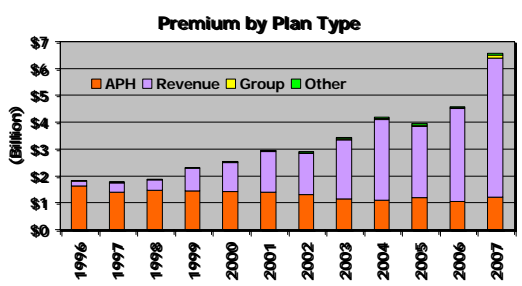
Participation by Insurance Plan Nationwide



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Participation by Crop

2007 Crop Ranking by Liability		
Crop	Liability (\$ Mil.)	% of Total
Corn	\$31,453	46.7%
Soybeans	\$11,533	17.1%
Wheat	\$5,385	8.0%
Nursery	\$4,019	6.0%
Cotton	\$2,146	3.2%
Citrus Trees	\$1,237	1.8%
Potatoes	\$847	1.3%
All Other	\$10,707	15.9%
Total	\$67,328	100.0%

Program Update – “Combo” Policy

- Combo rollout shifted to 2010 due to insufficient funding in the Continuing Resolution (CR) for IT
- USDA, OMB, Congress working to resolve funding shortfall
- Final Regulation is at OMB for review
- Farm bill language might need to be incorporated

Program Update – “Combo” Policy

- Combines APH/CRC/RA/IP/IIP
 - Revises APH Basic & Crop Provisions to include revenue protection for specific crops
- Crop programs affected
 - Canola/Rapeseed
 - Coarse Grains (Corn, Grain Sorghum, Soybeans)
 - Cotton
 - Malting Barley
 - Rice
 - Small Grains (Barley, Buckwheat, Flax, Oats, Rye and Wheat)

Revenue Coverage Choices

- Revenue Protection
 - if chosen, guarantee is based on the higher of the projected or harvest price (like CRC or RA with HPO)
- Revenue Protection with Harvest Price Exclusion
 - if chosen, guarantee is based on the projected price only (like RA without HPO)

Prices for Crops w/ Revenue Coverage

- Commodity Exchange Price Provisions (CEPP)
- Projected Prices will apply to both revenue and yield coverage
- Harvest Prices will apply to revenue coverage only
- Based on futures markets
- Released at least 10 days prior to the sales closing date



Limits on Prices

- If not enough data at harvest price time, harvest price set equal to projected price
- Harvest price will not exceed 160 percent of projected price (CRC used flat \$ amount by crop)



Some Crop Specifics

- No revenue coverage for:
 - Sunflowers
 - Corn silage/Rapeseed
 - There are no futures markets
 - Projected Price set by RMA (like MPCCI prices now)
 - Premium will be same as yield coverage
 - Allows enterprise/whole farm units for corn for grain & silage and canola & rapeseed

Automatic Policy Conversion

- Current policyholders will automatically have:
 - Revenue Protection if they previously had a revenue based plan of insurance (CRC, IP, IIP or RA)
 - Yield Protection if they previously had APH coverage

Reporting Requirements

- Provisions requiring a reduced indemnity when liability is misreported by more than 10.0 percent are removed.
 - Data showed no improvement in accuracy of information provided after implementation
- Provides authority to adjust yields knowingly misreported. Yields may be adjusted even after the three-year record retention period.

Prevented Planting

- Input from Prevented Planting workgroup.
- Clarification of terms and conditions to prevent fraud, waste, and abuse.

**Recommendations Added in 2005
Basic Provisions**

- No prevented planting coverage if producer fails to plant when planting is generally occurring in the area; and
- No prevented planting coverage on acreage where pasture or another forage crop in place during time planting of insured crop generally occurs.

**Recommendations Added To
Proposed Rule Basic Provisions**

- Allow irrigated eligible acres to be increased if:
 - Irrigation equipment has been added; or
 - Irrigated acreage is added to a non-irrigated farming operation.

**Recommendations Added To
Proposed Rule Basic Provisions**

- Allow Prevented Planting Eligible Acres to be Established for Producers in a New County if:
 - Acreage is obtained after SCD;
 - Report filed within 10 days after the acreage is acquired; and
 - No cause of loss may be evident when acreage is acquired.

**Recommendations Added To
Proposed Rule Basic Provisions**

- Provisions related to drought were clarified by:
 - Specifying sources that can be used to determine available water supplies.
 - Stating that inability to prepare land for irrigation due to an insured cause of loss is covered under the policy and eligible for an indemnity.
 - Provisions reorganized to allow some producers to plant in drought situations (anticipating return of normal rains) and still allow other producers to elect not to plant.

**Recommendations Added To
Proposed Rule Basic Provisions**

- When eligible acres are exhausted for a crop, payment may be made based on eligible acres for another crop but is limited to the prevented planting amount for the crop that is prevented from being planted.

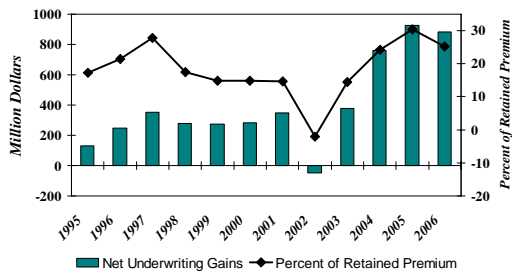
Program Update – “Combo” Policy

- Combo will cover
 - Nearly \$43 billion in liability (86% of total)
 - Over 1 million policies (94% of total)
- Implementation
 - New product includes basic provisions, multiple crop policies and price endorsements
 - New rating method, processes and procedures

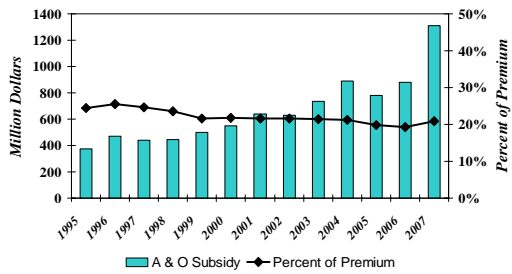
Farm Bill

House work complete.
Senate goes to the floor this week.

Underwriting Gains to Companies under the Standard Reinsurance Agreement



Subsidy Paid to Companies for Crop Insurance Delivery



House Bill

- Renegotiation of the SRA: Once every 5 years beginning with 2014 reinsurance year.
- Reduction in subsidy for GRIP and GRIP
- Increase in Net Book Quota Share. Not less than 12.5% with 2% commission
- Eliminate PRP
- Rebating – CAT fees only

House Bill

- Eliminate premium rate reduction pilots
- Reduction in A&O: 2.9%
- CAT Fees increased to \$200 per crop per county.
- Organic: Undertake a study to determine if surcharge is justified.
- Grasslands: Requires 4 years of production to be eligible for insurance

House Bill

- McGovern-Dole: Adjusts A&O rates paid to AIPs by royalty funds received from off-shore wells.
- Savings Adjustments:
 - Premium Billing moved to 8/1 in 2012
 - Moves A&O reimbursement out of FY for 2012
 - Payment of Underwriting Gains moved out of the FY for 2011

Senate Bill

- Expected Loss Ratio changed to 1.0
- Renegotiation of the SRA once in every 5 years beginning in 2012.
- AIP access to data mining
- Agent-to-agency rebating – 30% cap on controlled business
- Rebating: Cat Fees only
- Cat Fee increase to \$200

Senate Bill

- PRP eliminated. Requires a study to determine feasibility of such plans.
- A&O reduced by 2% - Robert's Amendment.
- Organic surcharge: prohibits surcharge unless data supports on a crop/state basis.
- New crop policies for energy, aquaculture and organics.

Senate Bill

- Measurement of farm stored production
- Savings Adjustment
 - Premium billing changed to no later than 9/30 in 2012
 - A&O date changed to not later than 10/31 in 2012
 - Underwriting gains paid on 10/1 2012 for 2011 reinsurance year.

Senate Bill on the Floor this week. Amendments are expected.

Biotech Yield Endorsement (BYE)

- BOD approved a ground-breaking endorsement for sale in CY2008
- Lower premiums on NIRR corn containing Monsanto triple stack genetics
- Estimated average discount @13 percent
- Initial availability IL, IN, IA, MN
- All AIP's eligible to sell

Pasture, Rangeland, Forage Pilot

- Vegetative Index
 - Uses the Normalized Difference Vegetation Index (NDVI) data from the USGS
 - Uses 4.8 X 4.8 mile grids as index for protection
 - Producers select one or more time periods (intervals) of three months that represent forage production
 - Losses are calculated based on the deviation from normal within the grid and index interval(s) selected

Pasture, Rangeland, Forage Pilot

- Rainfall Index
 - Uses National Oceanic And Atmospheric Administration data
 - 12 x 12 mile grid used as index for coverage
 - Producers must select at least two time periods (intervals) of two months
 - Losses are calculated based on the deviation from normal precipitation within the grid and the index levels selected

Pasture, Rangeland, Forage Pilot

- Aggressive 08 expansion limited by PAYGO—NE/KS pending for 09
- RMA is seeking development of “generic” forms of these policies (rainfall and vegetative)
- In the future, endorsements to the generic forms could provide a way to quickly provide coverage on bio-fuel and specialty crops

LRP Changes-2008 Insurance Year

- 2008 LRP-Lamb pilot program in 27states, including CO, NE, and KS
- LRP 2008 crop year changes:
 - 100% coverage level
 - New factor for lightweight dairy
 - Removed off-settling trade language

LGM Changes-2008 Insurance Year

- LGM 2008 crop year changes:
 - Move sales closing date back a day so that swine and cattle have different sales closing dates.
 - Use NASS state and monthly basis numbers for swine and corn
 - Move to dollar denominated deductible instead of percent of coverage
 - Expand LGM-Swine to:
Colorado, Illinois, Indiana, **Kansas**, Michigan, Minnesota, Missouri, Montana, **Nebraska**, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin and Wyoming

Premium Reduction Plan (PRP)

- For the 2006RY, up to 8 PRP-eligible companies have until Dec. 31, 2007 to request approval by RMA to pay a discount
- PRP was not available for the 2007 reinsurance year
- RCIS, XLRe/Heartland, Stonington/Agro, AmAgri/ARMtech are PRP eligible for RY2008 sales in NE

Conflict of Interest Disclosure and COI Reviews

- 4th Draft of Mgrs. Bulletin on Sept. 20
- Identifies:
 - Employee, Agent, & Loss Adjuster disclosure
 - Guidance to AIPs for COI reviews
- RMA working with companies to finalize
- Would become effective RY2009

Rebating

- RMA and States identify a growing problem.
- More complex schemes to circumvent laws.
- Fed/State initiative (under Info. Share MOUs):
 - Notify each other whenever either receives complaint or allegation
 - Share information and analyses
 - Share legal opinions
 - Take aggressive action to enforce statutes and SRA

Crop Adjuster Proficiency Program (CAPP)

- Problem:
 - Inconsistent State LA licensing requirements
 - Some States require P&C license for LA crops (irrelevant information)
- Possible solution (CAPP)
 - Working with States and NCIS
 - NCIS would train and test
 - State would accept CAPP for licensing
