

COM-19-001

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Date

April 12, 2019

To

All Approved Insurance Providers

All Risk Management Agency Field Offices

All Other Interested Parties

From

Heather Manzano, Deputy Administrator for Compliance /s/ Heather Manzano

Subject

Livestock Price Reinsurance Agreement (LPRA) Appendix IV Reviews

Background

Approved Insurance Providers (AIPs) are required to conduct reviews of eligible livestock price insurance contracts as described in Appendix IV of the LPRA. These reviews are intended to address suspected anomalies and program integrity concerns, or to assure that a company's internal control processes are operational and effective. The required reviews include Data Mining Reviews, Individual Policy Reviews, Conflict of Interest Reviews, and \$200,000 Indemnity Reviews.

The LPRA Appendix IV, Section III(b)(3)(C) requires AIPs to conduct \$200,000 Indemnity Reviews on eligible livestock price insurance contracts. The Risk Management Agency (RMA) has received questions regarding the basis for determining whether Dairy Revenue Protection (DRP), Livestock Gross Margin (LGM), and Livestock Risk Protection (LRP) losses have exceeded \$200,000. The terms "Inspection", "Eligible livestock price insurance contract" and "Verification" are defined in the LPRA.

Action

For DRP, \$200,000 Indemnity Reviews are required based on the aggregation of all Quarterly Coverage Endorsements (QCE) for a given quarter for the reinsurance year. \$200,000 Indemnity Reviews are only required once per producer, per reinsurance year.

For example: A California Grade A dairy producer produces 120 million pounds of milk annually (30 million per quarter). Five QCEs are purchased throughout the year for the October – December quarter for a total of 25 million pounds of milk insured for the quarter with the following indemnities:

- QCE 1 – 5 million pounds - \$85,000
- QCE 2 – 5 million pounds - \$90,000
- QCE 3 – 5 million pounds – No loss
- QCE 4 – 5 million pounds - \$45,000
- QCE 5 – 5 million pounds – No loss

The producer is paid \$220,000 in losses for the October – December quarter. The \$200,000 Indemnity Review is based on the aggregation of all QCEs for the quarter, therefore, the producer is subject to review.

For LGM, \$200,000 Indemnity Reviews are required based upon the aggregate indemnities for an insurance period. LGM Dairy Cattle has 12 insurance periods in which the producer can purchase coverage. \$200,000 Indemnity Reviews are only required once per producer, per reinsurance year.

For example: A California dairy producer produces 200,000 hundredweight of milk annually. Coverage is purchased in two insurance periods for a total of 200,000 hundredweight of milk insured with the following indemnities:

- Purchased in December (12/28/2018) with target marketings in:
 - March: 30,000 hundredweight - \$10,000
 - April: 30,000 hundredweight -No loss
 - May: 30,000 hundredweight -\$10,000
 - June: 30,000 hundredweight -\$190,000
- Purchased in March (03/29/2019) with target marketings in:
 - May: 60,000 hundredweight - \$ 75,000
 - June: 20,000 hundredweight – No loss

At the end of the two insurance periods, the producer had indemnities paid for both insurance periods.

- December Insurance Period - \$210,000 Indemnity
- March Insurance Period - \$75,000 Indemnity
- The December insurance period would require a \$200,000 Indemnity Review.
- The March insurance period would not require a \$200,000 Indemnity Review.
- If the producer had March insurance period indemnities exceeding \$200,000 a review would not be required as the producer already had one review conducted during the reinsurance year which was for the December insurance period.

For LRP, \$200,000 Indemnity Reviews are required on an endorsement basis. LRP Feeder Cattle insurance allows the producer to protect against price declines in the market value of the feeder cattle. \$200,000 Indemnity Reviews are only required once per producer, per reinsurance year.

For example: A Kansas Feeder Cattle producer insures 2,000 head of steers annually.

- Purchases two endorsements that cover 1,000 head each as follows:
 - Endorsement 1 is for 13 weeks – 1,000 head 5.50 cwt @ \$175/cwt
 - Endorsement 2 is for 21 weeks – 1,000 head 5.50 cwt @ \$170/cwt
- Feeder cattle prices decrease for Endorsement 1 but recover slightly for Endorsement 2
 - Endorsement 1 Indemnity – 1,000 head 5.50 cwt @ \$121/cwt
 - \$297,000 Indemnity
 - Endorsement 2 Indemnity – 1,000 head 5.50 cwt @ \$158/cwt
 - \$66,000 Indemnity
- Endorsement 1 would require a \$200,000 Indemnity Review
- Endorsement 2 would not require a \$200,000 Indemnity Review
- If the producer had indemnities exceeding \$200,000 for Endorsement 2, a review would not be required as the producer already had one review conducted during the reinsurance year which was for Endorsement 1.

The attached LPRA review matrix indicates the applicable reviews and inspection elements. Note that for Inspection Element (4) the reference to “practice” should be substituted with “type” for LGM-Cattle, LGM-Swine, LRP-Fed Cattle, and LRP-Feeder

Cattle. AIPs are to use the attached review matrix when determining livestock plan review requirements.

LPRA Conflict of Interest (COI) Reviews for livestock policies will be data mined like policies under the Standard Reinsurance Agreement. RMA will select and provide a list of policies to AIPs for review via HyDRA. RMA will notify AIPs when LPRA policies are included in the COI report.

[LPRA Appendix IV Review Requirements](#)

DISPOSAL DATE:

Until modified or rescinded