

## **Risk Management Agency (RMA) Permanent & Pilot Program Designations**

Pilot programs, are tested to determine whether they are accepted by producers as effective and affordable crop insurance coverage and to assure they are actuarially sound. After a pilot program has been tested, the Federal Crop Insurance Board of Directors (FCIC Board) will determine if the program can become a permanent Federal crop insurance program.

7 U.S.C. § 7333 provides direction about when the Non-Insured Assistance Program (NAP), offered by the Farm Service Agency (FSA), will be made available to producers. The 2014 Farm Bill added language in 7 U.S.C. § 7333 (a)(2)(A)(ii) referencing both RMA developed and privately submitted Federal crop insurance products for the first time, and included the availability of both additional and catastrophic (CAT) levels of coverage.

In the past, the FSA has interpreted what is now section 7333(a)(2)(i) to mean that if catastrophic risk protection (CAT) level Federal crop insurance was available, then NAP would not be available for the crop unless the program was a pilot program. This was based on a decision that producers should not be required to purchase programs while they are in the test (pilot) phase. This was not previously an issue for most 508(h) products because many did not have CAT coverage levels available, which meant that NAP coverage was not impacted.

However, with new section 7333(a)(2)(A)(ii), which now references additional levels of Federal crop insurance coverage, there is a need to establish procedures for determining when a policy goes from pilot to permanent program status, since most 508(h) policies provide for additional levels of coverage. Under the new procedures, once the FCIC Board makes the determination that a policy is permanent, then NAP will not be available. Only the FCIC Board will make the determination as to whether a Federal crop insurance product is a permanent or pilot program, and will do so for both RMA developed and privately submitted (508(h)) products.

In the past, determinations of whether a program is made permanent or remains a pilot was dependent on a thorough evaluation of the policy and whether there was sufficient information to conclude that the policy was operating in an actuarially sound manner and no program vulnerabilities were identified. Many policies remained in pilot status for a number of years because modifications were necessary to fix problems with the policy or there was insufficient information to conduct a meaningful evaluation because of low sales or few losses. This same process will be applied to all policies not currently codified in the Code of Federal Regulations, or for which no vote of permanence has been taken by the FCIC Board. Initially, all 508(h) products, meeting the requirements in section B below, will be labeled as pilot programs until an evaluation and Board consideration is completed.

This paper describes the development process of new Federal crop insurance products, and provides the process that will be used to determine whether a program is considered to be a pilot program or a permanent program. This determination will impact producers because it will ultimately affect whether NAP will or will not be available for purchase.

## **A. Development Process for New Products:**

New products may be developed by RMA directly or under contract, and may also be developed by private parties. All new products are submitted to the FCIC Board for approval and, if approved, the product is made available for purchase. The development process for new products includes:

1. **RMA Products:** Developed by RMA or under contract for RMA. RMA products are initially pilot programs. Generally, an evaluation is performed after approximately four years of piloting the program, and subsequent FCIC Board action determines if the product will become a permanent part of the Federal crop insurance portfolio. FCIC Board approval for permanence is followed with the formal rulemaking process providing the public the chance to comment on the product.
2. **Privately Submitted Products:** Developed by private sector submitters. Submitters are reimbursed for research and development expenses, and up to four years of maintenance expenses. At the end of the four years of maintenance expenses, the submitter may seek FCIC Board approval to charge a user fee to Approved Insurance Providers that sell the product, or may turn the product over to RMA. These products do not go through the rulemaking process unless they are turned over to RMA.

Any of the new Federal crop insurance products may cover new commodities or may provide new coverage that was not previously available for commodities covered with other forms of Federal crop insurance.

## **B. Defining Pilot Programs: The following are considered Pilot Programs:**

RMA will assign pilot designations to programs meeting the qualifications below. The RMA Senior Underwriter will consult with the FSA Director of Production, Emergencies, and Compliance Division, and the FSA Program and Policy Branch Chief in December and April, as well as prior to Board meetings where permanent status will be addressed, in order to communicate this information to FSA. Both RMA products and privately submitted products described in section A will be designated as pilot programs using the following guidelines:

1. **Previously Uninsured Crop:** A new policy that covers a previously uninsured crop, or a new crop that was previously not covered by Federal crop insurance. For example: Actual Production History (APH) coverage for Camelina is a pilot program because the crop was not previously insured under any individual policy or plan of insurance.
2. **Creating New Policies or Plans of Insurance for Previously Insured Crops:**
  - i. New plans of insurance that offer coverage in a substantially different form than existing plans of insurance. For example, Actual Revenue History (ARH) is a pilot program because it is a plan of insurance that offers coverage in a significantly different form than other plans of insurance. All crops added

to the ARH pilot program while in pilot status would be considered a pilot, even if the crop is covered under another program that is permanent.

- ii. A new endorsement to an existing policy that provides coverage that has never been offered before, for an additional or discounted premium amount (such as a Biotechnology Endorsement) will be considered to be a pilot program. For example, if a winter storage endorsement is made available for sweet potatoes for an additional premium the endorsement is considered a pilot. If an underlying policy to an endorsement is permanent, the endorsement will still be considered a pilot.
3. **Previously Uninsured Type:** Adding a type that was previously not insured **anywhere in the U.S.** to an existing insurance program will result in that type being a pilot program. For example: Blue Corn insurance was previously not offered anywhere in the U.S. and that crop type was not covered under a general type that was available, so when the Blue Corn type is added to an existing policy it will be a pilot.

Any policy, plan of insurance, option, endorsement or any other coverage not meeting the requirements above will NOT be considered a pilot program. Following are a few examples of items that do not meet the requirements above:

1. **Expanding Types to More Counties within a Permanent Program:** Submissions that add a type to a crop policy when that type was previously covered in the specific county or in any other county, will not be considered a pilot because the type was previously insurable. Example: Adding a specialty type to an existing policy, such as adding a specialty trait soybean type to a soybean policy, will not be considered a pilot program because the specialty type was previously insured under general soybean types.
2. **Modifying Coverage of a Permanent Insurance Plan:** Modifying coverage of an existing permanent policy. For example: (1) Adding an already tested endorsement. Example: Adding an Occurrence Loss Option Endorsement to a tree policy would not be considered a pilot since the Occurrence Loss Option Endorsement is available for other tree and crop policies and was previously piloted. (2) Adding policy provisions to a permanent policy. Example: Adding new policy provisions to create a new winter practice in a permanent Pepper Policy would not be a pilot because the provisions are added directly into a permanent policy. (3) Providing New Options or Modifying Procedures that Affect Policy Coverage. Example: Adding a Trend Yield Adjustment option to a corn policy that provides new procedures to calculate the Actual Production History would not be considered a pilot because it is a change to procedures that affect policy coverage of a permanent program so is not considered to be a pilot.
3. **Program Expansion to Additional Counties:** The expansion of an existing permanent insurance program or type that is already insured in a county to one or

more new counties to increase availability of insurance is not considered a pilot because the coverage was already offered for that program or type in other counties.

4. **Adding Types that Cover Previously Insured Types:** Adding a type that provides coverage for a commodity that was previously insured under another type name is not considered to be a pilot. For example, splitting out Specialty Type Soybeans from the general Soybean types is not considered a pilot because Specialty Type Soybeans were previously covered under the general Soybean type.

### **C. When Programs Are No Longer Considered Pilot Programs:**

1. For RMA developed products and privately submitted products, the FCIC Board will vote on whether the product will become a permanent program, continue as a pilot, terminate the program (RMA Product), or withdraw reinsurance (Privately Submitted Product).
2. If the FCIC Board votes to make the program permanent, notification establishing the program as permanent will be published on the RMA website and provided to FSA. Permanent status will begin the crop year immediately after notification. This timing will provide producers reasonable time to obtain the information.

Example 1: For a program the FCIC Board of Directors votes for permanent status whose bulletin is published August 15, 2016, and the contract change date is November 30, 2016, for the 2017 crop year, permanent status will apply to the 2017 crop year.

Example 2: For a program the FCIC votes for permanent status and notification is published August 15, 2016, and the contract change date is June 30, 2016, for the 2017 crop year, permanent status will apply to the 2018 crop year.

3. Although the Board may vote to make a program permanent, FSA requires 90 days before the NAP application closing date before removing any NAP program. Therefore, if a program becomes permanent under these RMA rules but there are fewer than 90 days before the next NAP application date, NAP will continue to be available for that next crop year. In these cases NAP would be discontinued the following year. Multiple benefits rules will prevent duplicate payments. This situation is not expected to occur often but is a safeguard so that both producers and FSA will have due notice regarding NAP availability.

Example: There has been a pilot insurance program for Crop A under Federal Crop Insurance. On August 12, 2017, the FCIC Board determines the insurance program for Crop A now has permanent status. Because the contract change date in the Crop A insurance policy is August 31, RMA releases a memo on August 20, 2017, letting the public know that the Crop A insurance is a permanent program beginning with the 2018 crop year (the crop year immediately following the contract change date). Because FSA's NAP application date for Crop A is September 1, and there are less than 90 days from the date the notification memo is released on August 20, 2017, to the September 1, 2017, NAP application date, FSA will continue to offer NAP for Crop A for the 2018

crop year (multiple benefits rules will apply). FSA will stop offering NAP for the 2019 crop year.