



Federal Crop
Insurance
Corporation

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August 15, 2018

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Martin R. Barbre */signed/*
Manager

SUBJECT: Manager's Report
Exhibit No. 4478

This is the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors meeting on August 15, 2018.

Research, Contracts, Studies, and Workgroups

Hybrid Canola Seed: On July 10, 2018, the Risk Management Agency (RMA) issued a second notice of intent for Research and Development of a Federal crop insurance program. RMA has contacted growers and seed companies that have expressed their support in the development of a hybrid canola seed program. Comments and responses were due from the public on July 25, 2018. There were no significant comments received in response to the notice of intent.

Apple Fresh Quality Option: An Indefinite Delivery/Indefinite Quantity (IDIQ) contract was awarded to Agralytica on February 7, 2018, regarding the FCIC apple policy. The objective of the first task order is to provide a comprehensive review of the apple policy, with a focus on the optional coverage for Fresh Fruit Quality Adjustment in areas where the program has experienced consistent high loss ratios. RMA received a draft deliverable on July 6, 2018. The final deliverable is anticipated by September 7, 2018, and will include recommendations for changes to the current apple program.

Program Changes

Supplemental Coverage Option (SCO) Endorsement: Beginning with the 2019 crop year, producers now have an option to reduce the liability of the SCO Endorsement by a percentage selected on or before the sales closing date. The election will be referred to as a "coverage percentage" and will be elected from a range of 50 percent to 100 percent, with a default value of 100 percent reflecting the maximum 86 percent expected area yield or revenue. Producers have requested the ability to lower the amount of coverage provided by SCO to better manage total premium cost.

Margin Protection (MP) Modifications: On June 25, 2018, RMA revised the MP plan of insurance for the 2019 and subsequent crop years, as follows:

- clarified that the base policy must be at an additional level of coverage;
- clarified that the High-Risk Coverage Endorsement and Catastrophic Risk Protection Endorsement are allowed on the base policy, but those acres cannot be covered under MP;
- modified the termination date for Corn, Soybeans, and Wheat;
- clarified production reporting requirements when Margin Protection is purchased as a standalone policy versus with an underlying base policy; and
- included minor corrections and clarifications.

Updated User Fee Billing and Collection Process: On June 25, 2018, RMA announced a new user fee billing and collection process beginning with the 2018 reinsurance. The process will increase efficiencies and reduce billing errors related to user fees by establishing clear standards on the timing and transmission of RMA data used for billing and collection of user fees.

Sugarcane Crop Replacement Endorsement (CRE): On June 15, 2018, the Sugarcane CRE was expanded to Glades, Hendry, Palm Beach, and Martin counties in Florida for the 2019 crop year. The expansion was approved by the FCIC Board of Directors on February 13, 2018. The CRE allows for a replacement payment for sugarcane that does not or will not reach its normal lifecycle due to an insurable cause of loss. Policyholders must purchase buy-up coverage level on the base policy in order to benefit from the increased coverage level that comes with this endorsement.

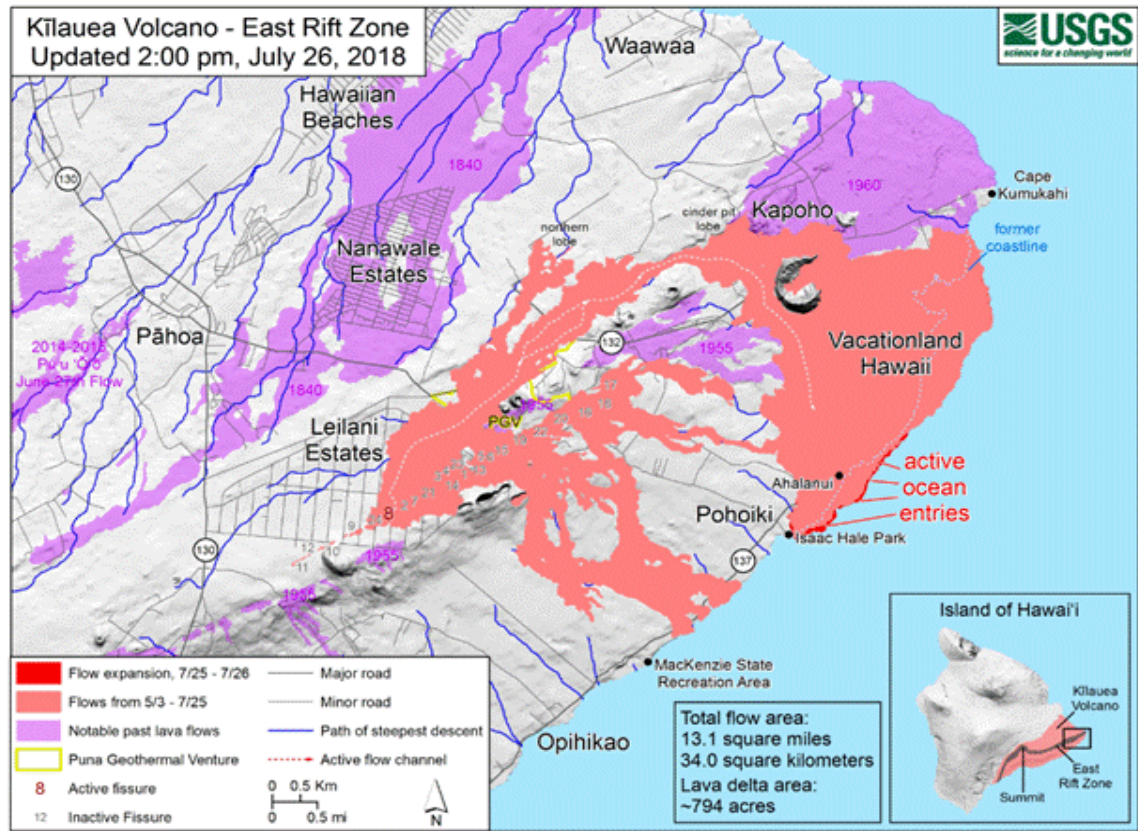
Disaster Updates

Hawaii Flooding and Volcano Damage: In 2018, two disaster events have significantly impacted lives and structures in Hawaii, with relatively lesser damage to agriculture. The first event occurred in April when many areas of Kauai and some other islands experienced flooding. RMA has not received any reports of insured crop losses from the flooding and the areas affected appear to be non-agricultural.

The second event, Kilauea volcano eruption on Hawaii (County/Island), began in May and continues. Losses to agricultural crops are from the lava flows, ash fallout, and “vog” (sulfur dioxide, other gasses, and particulates) and the resulting acid rain, may result in losses to coffee and macadamia nuts. Approved Insurance Providers (AIPs) will be able to further assess damage when the crop is harvested. Losses due to lava include one insured nursery with a liability of \$625,000 and the only insured papaya farm on the island consisting of 24 acres of papayas (fruit and trees) with a total liability of \$318,000. There could be as much as 2,200 acres of uninsured papaya on this island according to the Hawaii Farm Bureau. The AIPs are still in the loss adjustment process and the total indemnities is unknown as some of the impacted crops may have been harvested or sold, and access to the area is still difficult. Unfortunately, there may be other growers of papaya and other insurable crops, such as coffee, that have been affected but do not have a crop insurance policy. Several growers of uninsurable crops, such as taro have been affected by the volcano, and most of these are not participating in the Farm Service

Agency's (FSA) Noninsured Crop Disaster Assistance Program. RMA's Davis Regional Office (RO) has been in contact with Hawaii Congressional offices and they have reached out to inquire about the possibility of additional assistance such as covering the uninsured losses by allowing growers to late-file insurance applications. A letter has also been sent to Under Secretary Northey.

County (Island)	Crop	2018 Acres/Trees	2018 Liability	2018 Indemnities (to date)	Notes
Hawaii	Banana Tree	83,586 Trees	\$ 508,085	0	Coverage available also for banana fruit
	Coffee	1,027 acres	5,670,326	0	Potentially affected by "vog"
	Coffee Trees	292,710 trees	7,072,903	0	
	Macadamia Nuts	11,174 acres	18,035,388	0	Potentially affected by "vog"
	Mac Trees	11,851 acres	52,844,010	0	
	Nursery	n/a	8,309,177	0	8 policies, one destroyed by lava (liability: \$625,000)
	Papaya	24 acres	196,190	0	Only policy, was damaged by lava
	Papaya Trees	15,459 trees	121,878		Only policy, was damaged by lava
Kauai	Coffee	2,775 acres	10,877,243	0	
	Coffee Trees	3,307,238 trees	9,516,928	0	
	Nursery	n/a	102,199	0	



Oregon Drought: The Klamath Basin of Southern Oregon and Northern California are experiencing a severe drought impacting irrigation water supplies. In addition, a Federal judge imposed an injunction for an environmental water diversion to flush parasites from rivers impacting juvenile salmon. Some insured producers have been impacted with a partial or complete loss of irrigation water supply. The Bureau of Reclamation drafted and issued a letter to the RMA Administrator about the reduced irrigation water supply allocations as a result of the drought. Separately, the Bureau has drafted a contract to provide irrigation districts with \$10.3 million in allocated drought assistance to offset costs for ground idling and ground water pumping. On July 26 RMA's Spokane RO, Product Management, Bureau of Reclamation, and an irrigation district representative, held a conference call to discuss concerns about any impacts to crop insurance. The Spokane RO offered callers submit their questions and receive written answers from RMA to alleviate their concerns about crop insurance impacts.

Oregon Fire: A fire called the Substation Fire began on July 17, as a likely result of arson, but quickly spread due to drought conditions and very high winds. This fire has burned areas that have impacted and destroyed crops in Sherman and Wasco County, Oregon. Both of these counties have a high crop insurance participation rate for wheat. FSA estimates the number of wheat acres destroyed by fire is 5,400 in Sherman and 12,700 in Wasco. There have been questions about insurable cause of loss because of suspected arson, but the fire increased due to winds and drought. The Spokane RO has been in ongoing communication with other Federal agencies, state agencies, and the National Crop Insurance Services Regional Committee about notice of loss procedures for Federal crop insurance. There are producer meetings planned for July 30-31.

Approved Insurance Providers (AIP)

Reinsurance Year 2019 AIPs Approved: RMA recently entered into contracts with 14 AIPs for the 2019 reinsurance year (RY), which began on July 1, 2018. This is a decrease from 16 AIPs during RY 2018. Casualty Underwriters Insurance Company, who opted out of the program this year, wrote livestock business only and sold 14 lamb policies totaling \$200,000 in premium for RY 2018.

GuideOne Mutual Insurance Company (GuideOne), and their managing general agency Crop Pro Insurance Services, Inc., were not approved for the 2019 reinsurance year as a result of their unsatisfactory performance surrounding the cancellation of private products in the State of Nebraska during RY 2018. Both FCIC and the Nebraska Department of Insurance took action to address the marketplace disruption that resulted. Before the policy cancellations, GuideOne had an estimated \$25 million in total premium with \$10 million in Nebraska. Currently, GuideOne has \$11 million in total premium with \$3 million in Nebraska, and a total of 1,400 policies earning premium with a total of 349,000 acres. They are working with RMA on a plan to service and close out this remaining business.

Outreach

National Alfalfa and Forage Alliance: In June, RMA met with the National Alfalfa and Forage Alliance to discuss upcoming program changes and other potential program updates. Plan provisions for the Forage Seeding and Forage Production Crop Provisions are expected to be updated for the 2020 crop year. RMA continues to research the Forage (Alfalfa) Seed crop insurance program for other potential program improvements.

Florida Citrus: RMA has met with Florida Citrus Mutual to discuss potential program improvements to citrus insurance. This information will be used to shape future program changes and will be included in a report to Congress due at the end of 2018.

Florida Strawberries: In August, RMA is travelling to Florida to meet with the Florida Strawberry Growers Association to discuss the strawberry insurance program and potential for providing coverage in Florida.

Risk Management Education

Risk Management Education and Targeted States Partnership Programs

Announced: On May 29, 2018, RMA announced the availability of \$8.89 million in funding for the Risk Management Education and Targeted States Partnerships. RMA will award \$4.73 million to deliver crop insurance education to producers in 17 targeted states where there is a low level of Federal crop insurance participation and availability. The Agency will also award up to \$4.16 million to provide producers general nationwide training and informational opportunities on the subject of crop insurance and other risk management tools. For FY 2018, RMA is seeking applications that provide information and educate producers on Agency priorities such as Crop Insurance 101, Whole-Farm Revenue Protection, Rainfall Index Insurance, Livestock Products, Cover Crops, Crop Insurance Education to Tribes, Food Handling and Produce Safety, Drought, Irrigation/Limited Irrigation, and Recordkeeping.

Compliance

RMA Compliance has issued final findings to reinsured companies for the period of May 2018 through July 2018:

- Premium overstatements of \$441,385;
- Indemnity overpayments of \$2,705,212;
- Premium understatements of \$1,470;
- Indemnity underpayments of \$11,396;
- A&O reduction of \$16,696; and
- Civil fines of \$,1000.

Improper Payment Elimination and Recovery Improvement Act (IPERIA) Reviews:

The fiscal year (FY) 2019 IPERIA reviews have begun. Compliance Investigators took part in IPERIA training June 14, 2018, and/or June 19, 2018. The deadline for AIPs to

have all requested documentation submitted to the Regional Compliance Offices (RCOs) or to request an extension was June 22, 2018. In addition to IPERIA training, Whole Farm Revenue Protection (WFRP) training was held July 11, 2018. RCOs are currently reviewing documents to determine if an improper payment was made. As reviews are completed, RCOs notify AIPs with a Closure Letter (no improper payment) or Initial Finding.

AIP Performance Reviews (APR): RMA conducted six APRs to evaluate and assess each AIP's compliance with the terms and conditions of the Standard Reinsurance Agreement as well as their operational and control activities. Compliance issued the Fiscal Year 2018 APR reports to the select AIPs during the end of the third quarter of Fiscal Year 2018.

Business Analytics: The Excessive Yields Report was released to the AIPs in early July. The report utilizes a data driven algorithm to analyze and identify yields that are so large when compared to other yields for the same year, county, and crop type and practice that the accuracy of the large yields is questionable. To determine if a yield is excessive it is compared to a threshold. If the yield is greater than the threshold, it is considered excessive, a yield being less than a threshold shouldn't be interpreted that the yield is reasonable. Some large yields may not be typical or even expected without meeting the level of an excessive yield. The initial report was computed for 2012 through 2017 and subsequent years will compute that year's threshold and was delivered to the AIPs mid-July.

Key Personnel Announcements

James (Jim) Bellmon assumed the duties of Director of the Oklahoma City Regional Office (RO) effective May 27, 2018. Jim was previously a Senior Risk Management Specialist in the Oklahoma City RO and prior to that worked for the Farm Service Agency as a County Executive Director and as a Program Specialist in the Oklahoma State Office.