

## 2007 LEADERSHIP REPORT

By

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### 2007/2008 Pessimistic/Optimistic

Normally this space is reserved for bringing everyone up-to-date with NCIS and Industry accomplishments for the past year. But as we sit here today, it seems as if 2007 has blended into 2008 with a continuous fluid motion. There is a Farm Bill that seems to go on and on without an ending, and there are endless discussions on the effects of crop insurance and the need to protect production agriculture. While the House and Senate passed their different versions of a 2007 Farm Bill, we have yet to have a conference committee to work out the differences of the two congressional versions. And we have the Administrative requesting more policy reform than either version passed by either chamber. Both the White House and the Secretary of Agriculture have been adamant in their request for stronger reform.

While this story of the continuing Farm Bill goes on and on, Chairman of the NCIS Board of Directors, Randy Tronnes, and I would like to inform you on the past and current issues for 2007 and 2008.

#### **MPCI**

Staff and many of the NCIS standing committees spent countless hours working with RMA on the eWA and Combo Policy projects. Unfortunately, late in the year, RMA was forced to suspend the development and implementation of the new business processing system (eWA), and thus postponing the release of the Combo Policy indefinitely. The President's 2008 fiscal year budget request included a participation fee to fund this project, but RMA was unable to obtain the necessary legislation or appropriations from Congress. RMA will retain the documentation on work to date in the event that funding can be obtained for the projects in the future.

Once again the policy and procedure side of the MPCI world proved to be extremely active in 2007. Numerous events brought to light opportunities for NCIS and its member companies to work together with RMA in issue resolution with the goal of ensuring consistent and timely adjustment of insured losses while maintaining a focus on program integrity.

The year began with an early freeze event in California that threatened the avocado and citrus crops. Similar to a situation that occurred late in 1998, RMA authorized usage of expedited loss adjustment procedures that enabled

companies to deal quickly with the damaged citrus crop. This event was soon to be followed with exceptionally warm late-winter weather in the central U.S. causing wheat and other crops to come out of dormancy early and begin growing. Then these crops were faced with a damaging freeze in early April affecting much of the wheat crop in eastern Kansas and Oklahoma, as well as nursery and other fruit bearing crops all the way to the East coast. As nurseries in Kentucky and Tennessee were hit especially hard by this freeze, NCIS, in cooperation with RMA, held an industry adjuster training session to provide updates on current procedures specific to the situation. Continued early-season wet weather throughout the central plains brought about issues concerning whether or not it would be practical to replant damaged spring crops under various conditions. NCIS, on behalf of its membership, recently submitted a recommendation to RMA which we hope might alleviate many of the issues and concerns surrounding practical to replant and first/second crop considerations. In other parts of the country, the growing season progressed into periods of exceptionally dry conditions. This created a need for RMA to clarify procedures when dealing with insureds attempting to salvage what they could of their corn crop by chopping it for silage. The clarification gave companies the ability to more expeditiously authorize usage of representative strips for later appraisal. The extreme dry conditions also affected much of the crop producing areas of the Southeastern U.S. with the year culminating in hot dry winds and wild fires in southern California. RMA has been working closely with the industry in identification of the resultant southern California crop losses that were due to insurable causes.

There were other areas within the crop insurance program where a close working relationship within the industry was warranted in order to bring about better procedural or policy clarity. In addition to the many regularly sponsored NCIS adjuster training schools, NCIS also facilitated special training sessions on Onion loss adjustment and the 2007 Peanut program. 2007 was also the first full year for implementation of the new quality adjustment provisions for many of the insurable grain crops. Considerable time at our NCIS Update Conferences was devoted to understanding these new provisions and their applicability under various situations. A workgroup of member company volunteers was formed to work with RMA to explore possible ways to capture and transmit crop quality information back to RMA with the goal of gaining a better understanding of the types of insurable quality defects that occur and the resultant affect grain quality has on indemnities.

NCIS, with the help of many of our member AIPs, worked closely with RMA towards the goal of bringing about procedural uniformity and better clarity with respect to conflict of interest disclosure guidance.

## **Crop-Hail**

The 2008 Final Average Loss Costs were filed in Arizona, Iowa, Kansas, Kentucky, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Tennessee and Texas. All loss cost filings were approved and distributed to the membership by mid-September. Form filings which included a revision to the Assignment of Indemnity were filed in all states for 2008. Over 90 percent of the form filings were approved by mid-October. The last of the form filings was approved the first of December.

Filings were submitted electronically using the SERFF (System for Electronic Rate and Form Filing) method. Currently 10 states require that SERFF be used when submitting filings to the state.

The states that are scheduled for new Final Average Loss Costs for the 2009 crop season include: Alabama, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Louisiana, Michigan, Mississippi, Missouri, Montana, Nevada, North Carolina, Ohio, Oregon South Carolina, Utah, Virginia, Washington, Wisconsin and Wyoming.

The NCIS Board also directed Staff and both the Crop-Hail Loss Adjustment and Insurance Products and Crop-Hail Actuarial and Statistical Committees to investigate the feasibility of developing a "production plan" crop-hail program. Both Committees have met to discuss it and will continue to work on it in 2008 and report to the NCIS Board throughout the process.

## **Research**

The NCIS research department was busy overseeing 22 different agronomic research projects in 16 states, one in Canada and one in Great Britain. 2008 will prove no different as there are 27 projects in 17 states, one in Canada and one in Great Britain.

## **Education & Training**

NCIS sponsored 35 loss schools, field days, and conferences in 2007 with over 2,200 people attending. The highlight of these was the second annual Program Integrity Conference, which provided an excellent opportunity to discuss the issues surrounding program integrity and proactively set forth an agenda to ensure ethical conduct by all associated with the crop insurance program. Planning is under way for the third annual conference scheduled for May of 2008.

A new initiative in 2007 was approval by the NCIS Board to establish a program whereby crop adjusters can demonstrate an approved level of proficiency (currently called the Crop Adjuster Proficiency Program or CAPP). The intent of this program is to help adjusters satisfy state licensing requirements consist with the requirements of the SRA. (See the full article on Adjuster Proficiency on pages 11-13.)

NCIS also continued to be actively involved with universities and organizations that have a special talent in reaching small and limited resource farmers, and producers in states identified by RMA for special emphasis on risk management education.

### **Public Relations**

Over 100 press releases, many individualized for specific states were distributed to regional and local newspapers regarding sales closing deadlines, changes and program expansion, and others. Many of these were placed in agricultural magazines and websites. Over 75,000 copies of the 2007 Guide to Crop Insurance were distributed to farmers across the country and the readership of *Crop Insurance TODAY* continues to grow.

### **Administrative**

In 2007, NCIS provided actuarial document services to 5,111 agents who are affiliated with NCIS members. Over the year, NCIS processed more than 353,000 document and map pages to provide this service. By year end, only 204 of these 5,111 agents still received their documents on paper; the remainder receive actuarials on CD-Rom. In addition, 1,477 agents now access their actuarial documents online, through the NCIS web site either as a supplement to their paper or electronic versions, or in place of them.

The NCIS web site remained quite active in 2007 and continues to be a primary means by which NCIS delivers information to its members. Here are some highlights:

In 2007,

- More than 3,000 individuals used logon IDs and passwords that grant them access to NCIS products through our web site.
- Our home page was viewed 63,958 times.
- Agents accessed actuarial documents online 12,092 times.
- NCIS members visited our online "Form Store" 916 times, making 284 online purchases.
- Over 1,300 people registered for meetings online.
- NCIS members linked to NCIS bulletins from our bulletin release announcements 2,510 times.

### **Legal**

2007 was an active year on the litigation front. One litigation highlight of the year was securing a final victory on the federal pre-emption issue in the challenge to Florida's efforts to tax MPCIC premium. We hope this deters future state actions to intrude on the federal crop insurance program.

The long running Minnesota Sugar Beet litigation passed two significant milestones in 2007. First, the indemnification claim against FCIC was resolved, and settlement funds were distributed in the summer. Second, agreement was

reached with the beet growers who protested their APH adjustments based on the prior settlement of their crop year 2000 claims, and we expect execution of final documents in that matter quite soon. Thus, the first quarter of 2008 should close out the last aspect of the Minnesota Sugar Beet litigation.

Throughout 2007, the CAT (“Winstar”) case remained very active, and 2008 should see us complete preparation for a hearing on the merits before the Civilian Board of Contract Appeals. This suit seeks recovery of CAT administrative fees eliminated by the 1998 Research Act, and CAT LAE reduced by that Act as well as ARPA 2000.

Last year brought two new litigation matters, both of which involve crop year 2006 corn planted in Texas under the Group Risk Income Protection plan of insurance. Irrigated farmers commenced an arbitration complaining about the amount of indemnities they had received, and non-irrigated farmers filed a suit in Amarillo federal court contesting FCIC’s 2006 determination that planting non-irrigated corn in certain Texas counties did not constitute a good farming practice.

### **Contracting**

NCIS was active in 2007 in several significant risk management education activities. NCIS was awarded a competitively funded agreement with RMA in the Billings Region to provide training on Livestock insurance and risk management.

USDA/RMA research contracting activities for 2007 included an expert review contract on cherries, which was awarded to NCIS late in the year. Staff will continue to work on this project in 2008.

### **Special Projects**

Grant Thornton LLP was engaged by NCIS and its member companies to update the 2004 Profitability and Effectiveness Analysis of the Federal Multi Peril Crop Insurance Program for the period of 1992-2006. This study benchmarked the MPCCI industry against the Property & Casualty insurance industry. (The full report can be found on the NCIS website.)

The report pointed out several key findings that disputed other reports from government agencies. Because of the key findings, NCIS Staff, along with Grant Thornton associates, were invited to Washington D.C. to explain the analysis to members of Congress and their staff. We believe that the report was well-received because it was referred to and portions of the report were read during the Senate debate on the 2007 Farm Bill.

### **Conclusion**

2007 was a very busy year for everyone in this Industry! As we said earlier, the saga of the ’07 Farm Bill continues into ’08. And as the price of corn and wheat goes up, the pessimism from the press towards this Industry

increases. These negative and confusing stories as told by the media and some congressional people do nothing to help the farmers and ranchers in this country.

The NCIS Board and Staff have decided to take the optimistic approach to tell the *true* story of how this program is working as it was designed to. We will bring out the facts on how this program has saved many family farms and helps make payments on operational loans and mortgages. And we will continue to do our part to ensure that the abundant amount of food we enjoy today continues for many years to come.