The Federal Crop Insurance Program (Program) is a hybrid of Federal administration of and private insurance company delivery of multiple peril crop insurance (MPCI) to American farmers and ranchers under the Federal Crop Insurance Act.

Multiple peril crop insurance is offered to qualified producers through the Program. MPCI covers loss of production and loss of revenue (commodity prices) for natural perils including hail, fire, wind, drought, flood, insect infestation and levee dynamiting. There are products that combine yield and price coverage to cover loss in value due to a change in market price during the insurance period, in addition to perils covered by the standard loss of yield coverage. Crop insurance policies also typically indemnify the insured person for other adverse events, such as the inability to plant or excessive loss of quality due to adverse weather. The Program provides only MPCI insurance. Farmers can purchase additional crop-hail coverage from private insurers.

The Federal Crop Insurance Corporation (FCIC), which is a government corporation within the U.S. Department of Agriculture, carries out the Program. The Risk Management Agency (RMA), on behalf of the FCIC, oversees and administers the Program under the Federal Crop Insurance Act.

An insurance company must be in good financial standing and in compliance with the state laws where domiciled and writing business to be authorized as an insurer in the Program. Insurance companies approved to participate in the Program are called “Approved Insurance Providers” (AIPs). AIPs enter into one year insurance contracts with farmers, share the insurance risk with the Federal government and compete with each other for business. They operate within the rules and conditions in the Standard Reinsurance Agreement (SRA).

The SRA is a cooperative financial assistance agreement between the FCIC and each private insurance company participating in the Program. The SRA defines each party’s responsibilities in delivering the MPCI product, and establishes the terms under which FCIC provides proportional and non-proportional reinsurance to the AIPs on eligible crop insurance contracts sold by the AIPs to farmers. Under the SRA, FCIC provides reinsurance to the AIPs, pays a premium subsidy to reduce the premium charged to producers, reimburses the insurance companies for administrative and operating costs, and oversees the financial integrity and operational performance of the delivery system. AIPs must sell insurance to every eligible farmer who requests it and must retain a portion of the risk on every policy. AIPs also may reinsure some of the risk they retain in the private market.

The RMA is authorized to renegotiate the SRA every five years. The RMA last renegotiated the SRA for the 2011 underwriting year. The final version of the 2011 SRA was released on June 30, 2010. RMA announced the new SRA would create $6 billion in savings over 10 years, with $4 billion earmarked to pay down the federal deficit and $2 billion to support high priority risk management and conservation programs. The SRA and related materials can be accessed at: http://www.rma.usda.gov/news/2009/12/sra.html.
Background on the 2011 SRA Renegotiation:

In December 2009, the RMA released its first draft of the 2011 SRA between the FCIC and the crop insurance companies that deliver the program nationally (AIPs). The second draft SRA was released on February 23, 2010. The draft SRA included several changes that were problematic for crop insurers and agents, including: reduced flexibility in managing underwriting risk; limited potential underwriting gains; and lowered expense reimbursement. The RMA claimed to be seeking the following six primary objectives through the renegotiation of the SRA: maintaining producer access to critical risk management tools; aligning the Administrative and Operation (A&O) subsidy to insurance companies closer to actual delivery cost; providing a reasonable rate of return to insurance companies; protecting producers from higher cost while equalizing reinsurance performance across states to more effectively reach under-served producers, commodities and areas; simplifying provisions to make the SRA more understandable and transparent; and enhancing program integrity.

The industry expressed serious concerns with the proposed changes to the SRA and urged the Department to make changes to maximize private market participation in the Program. At the urging of the industry groups, several members of congress sent letters to the USDA questioning some of the proposed changes to the SRA. The insurance and agents industries also engaged in discussions with RMA.

RMA released the final SRA on June 30, 2010. The final SRA included significant changes and a cut to the Program.

Important highlights of the final 2011 SRA:

- **A&O (Administrative and Operating expense subsidy paid to insurance companies):**
  - The A&O subsidy payment will continue to be established as a fixed percentage of the Net Book Premium.
  - The A&O subsidy calculation will be based on projected market prices, rather than reference prices as was proposed in earlier drafts.
  - There will be a maximum A&O subsidy of $1.3 billion in 2011, with yearly increases based on inflation up to $1.37 billion in 2015.
  - RMA claims that the changes allow A&O subsidies to fluctuate within a range that removes extremes, thus preventing windfalls created by price spikes, yet ensures an adequate A&O subsidy provided to companies.

- Limits company expenditures on agent commissions to 80% of the A&O subsidy, with allowed use of profit sharing. Total agent compensation is limited to 100% of the A&O subsidy. The 80% cap will be enforced at the state level.

- The risk sharing terms have been adjusted to provide an expected return to AIPs of about 14.5%. RMA claims that a “reasonable” rate of return over the last 21 years averaged 12.7%, while companies actually received an average rate of return of 17%.

- The final SRA maintains the previous Assigned Risk Fund (which was replaced in the first two drafts with a residual fund), with stop loss protection and terms that are more
profitable for states outside the Corn Belt. There will be one Assigned Risk Fund per state per AIP. RMA claims that they have rebalanced the risk sharing terms to equalize expected returns throughout the different States.

- States will be categorized into three groups (as in the second draft 2011 SRA).
- Sets the Net Book Quota Share at 6.5% (the prior SRA negotiated in 2005 was 5%), with 1.5 percentage points of any underwriting gain to be distributed to those AIPs that sell and service policyholders in the 17 underserved or lesser served States (Group 3 states). Note that the first draft 2011 SRA raised the Quota Share to 10% and the second draft reduced it to 7.5%, with an opportunity to earn back the 2.5% in “underserved” states.
- A covenant not to sue:

  “The Company, for itself and any persons whose rights are derivative of the Company (including, but not limited to, assigns, successors, and representatives), hereby covenants and agrees that it will not institute or file any judicial or administrative proceeding, or cause the instituting or filing (directly or indirectly) of any judicial or administrative proceeding, or assist any third party that has instituted or filed any judicial or administrative proceeding, against FCIC, RMA, the United States Department of Agriculture, or any officer, agent, or director thereof (collectively, “FCIC”), challenging the legality of the terms and conditions of section III(a) [Subsidies and Expenses]. Nothing in the forgoing precludes the Company from responding to a court order. This covenant and agreement may be pleaded by FCIC as a bar or release in the event any such judicial or administrative proceeding is instituted or filed. The Company and FCIC, prior to execution of this Agreement, had disputed the provisions of section III(a). That dispute now has been compromised in a manner mutually acceptable to the Company and FCIC, and, in consideration of that compromise, the Company agrees and covenants as set forth above. The Company shall require its agents to acknowledge in writing that the agents agree to and are bound by the same covenant not to sue contained in this paragraph. Such acknowledgement may be contained in an agent or other agreement.”