



United States
Department of
Agriculture

Risk
Management
Agency

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

May 20, 2004

**TO: All Reinsured Companies
Applicable Trade Associations**

**RE: Proposed Third Draft of the Standard Reinsurance Agreement (SRA) and
Appendices I, II, and IV**

The Risk Management Agency (RMA) is releasing the enclosed third draft of the proposed SRA along with three Draft Appendices to the Agreement:

Appendix I, Procurement Integrity, Drug Free Workplace and Anti-Lobbying Statements;

Appendix II, 2005 Plan of Operations; and

Appendix IV, (formerly Manual 14).

Appendix III (formerly Manual 13) is currently being prepared based in part on the helpful feedback received during the Information Technology meeting held last week in Kansas City, along with the company's written comments.

In developing the third draft of the SRA, RMA again carefully considered each comment generated from the second draft. This draft maintains RMA's commitment to ensuring the integrity of the crop insurance program, and providing for the effective and efficient use of taxpayer dollars. In addition, RMA made every effort to address the continuance of a viable and effective delivery system to maintain service to America's agricultural producers.

Meetings:

RMA is scheduling an industry-wide teleconference to review the proposed third draft. The teleconference will be held at 3:00 pm (Eastern Time) on Friday, May 21st. The call will again be held on a secure line and will be open to only reinsured company representatives and their trade associations. Given the tight timeframe, written questions are not expected.

RMA is also available to hold individual sessions (either face to face or by phone) with each reinsured company or trade association under the same guidelines as previously provided to you. Any reinsured company or trade association desiring an individual session should contact:



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- For Washington, D.C. based meetings or discussions to occur May 27-28:
Sally Relyea - (202) 720-1081
- For Kansas City based meetings or discussions to occur June 1-3.
Karen Talley - (816) 926-7394

If you agree in principle with the terms and conditions of the third draft, we are also willing to hold discussions with your legal representative and the Office of General Counsel (OGC) to iron out any minor wording changes to incorporate in the final document. This can be done at a mutually agreed location.

In preparation for the individual meetings, any questions or comments should be emailed to David C. Hatch and Tim B. Witt by Wednesday, May 26th. Also, please let us know if you would like your Counsel to participate in a meeting with OGC to work out the final language.

At this point in the process, it will not be necessary to have you submit final written comments following our discussion, unless you feel it is necessary to do so. Individual company discussions should suffice. However, for your information, written comments from all other interested parties will be due no later than June 4th. The final document for signature will be released as quickly as possible thereafter.

Highlights of changes:

The following provides some general changes made to the third draft. Enclosed is a compare document to help you identify the changes made from the second draft.

Standard Reinsurance Agreement

Some of the changes are:

- Revised the definitions of affiliate, relative, service provider, and material;
- Reduced the use of the term affiliate and identified specific entities where possible;
- Defined cooperative associations as those approved by state or Federal law, as determined by FCIC;
- Eliminated most of the detailed provisions involving rebate and cooperative associations;
- Provided more information on the role, timing and responsibilities of RMA involving large claims;

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- Instituted 25%/50%/75% tiers on state cession limits while significantly increasing the number of states with 75% cession limits (22 states compared to 9 in the 04 Agreement);
- Reduced the company retention in all states with a 75% cession limit to 15%, a 20% company retention for all states with a 50% cession limit and a 25% company retention for all states with a 25% cession limit.
- The cost savings to the program of the third draft is \$36 million reflecting reduced A&O reimbursement and the 5 percent net book quota share as in the second draft, and revised company assigned risk state cession limits and overall company retention percentages. These savings will be achieved through a phased in implementation of the A&O subsidy and CAT fees change --that is, implementing half of the reduction in reimbursement in the 2005 reinsurance year, with the full reduction taking effect for the 2006 reinsurance year and beyond. The entire 5% quota share revision and revised state cession and company retention percentages will be effective in the 2005 reinsurance year.
- Reduced the total company retention percentage to 35% of the total book of business, compared to 45% in the second draft;
- Applied a consistent date to make Fund designations, with minor exceptions.

Appendices

Appendix I has been changed back to a similar version of the 2004 appendix.

Appendix II was revised so some information can be requested based on need for additional information. For example, cash flow reports would be provided, only upon request.

Appendix IV contains modified definitions and provisions to conform to the third draft and other changes to generally clarify areas or issues that raised questions or received numerous comments.

RMA continues to believe that the concept of rebalancing of potential underwriting gain/loss has merit. However, it will require significantly more time and analysis to determine if a future viable alternative exists, before proceeding in this direction. RMA continues to invite and encourage the development of a fiscally responsible proposal from any company or trade association. If such a proposal is brought forth, RMA will pursue it once the SRA renegotiation process is completed.

We look forward to working with you to finalize any remaining issues so we can complete this process and have the final SRA in place by July 1. Thank you for your cooperation, comments and advice in developing this third draft of the SRA.

Sincerely,

/s/

Ross J. Davidson, Jr.
Administrator

cc: JB Penn, Undersecretary for FFAS
Floyd Gaibler, Deputy Undersecretary for FFAS
Keith Collins, FCIC Board Chairman
Byron Anderson, Associate Administrator for RMA
David C. Hatch, Associate Administrator for RMA
Tim B. Witt, Deputy Administrator for RMA

Enclosures

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