



February 6, 1997

TO: Directors, Regional Service Offices

FROM: Tim Hoffmann, Acting Director
Product Development Division

SUBJECT: 1998 Nonstandard Classification Handbook Changes

The review of the 1998 Draft Nonstandard Classification Handbook went very well. We received many helpful comments. The following lists the proposed changes, summarizes comments, and designates the final changes for the 1998 NCS crop year.

1. Added new procedure for hail. Hail is not deducted for apples under any of the apple options. It is also not deducted for income protection policies or crop revenue coverage policies.

Response: No Comments!

Final : In addition to the proposal, no hail deduction will be made for any apple experience (not just the experience earned under an option). This additional change was made due to changes in the rate process.

2. Selection criteria are expanded to include:

- (a) a minimum net indemnity amount (please send your suggestions on an amount by crop. It must be over \$100).

Response: Recommendations varied from \$100 to \$50,000.

Final Change: The minimum net indemnity amount is set at a \$1000 for all crops.

- (b) a Z score override (if there are 5 or more losses and a loss ratio of 1.5 or greater then select the entity regardless of the Z score).

Response: There was some concern whether this would make any difference in the entity's current rate? We determined that rates would increase for persons selected under this criteria. Additional selections do not appear to be significant. In Iowa, an additional 65 people were selected for soybeans

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with 95 percent having a 13 percent or greater increase in rate. In South Dakota, only 25 more people were selected for sunflowers with 92 percent receiving an increase in rate.

Final change: As proposed.

3. Added procedure for prevented planting adjustments. For prevented planting policies, the prevented planting liability for 1995 and succeeding crop years is adjusted to equal the liability of the crop as if the crop was planted. Indemnities paid for prevented planting, during the 1995 crop year, are reduced as follows:

- (a) Indemnities paid when no other crop is planted are reduced by 1/3.
- (b) Indemnities paid, when an approved substitute crop is planted, are reduced to 0.
- (c) Indemnities paid when an approved cover crop is planted and not harvested, hayed or grazed are reduced to 0.

Response: Questioned what the 1996 procedure would be for prevented planting.

Final: The proposal will be implemented for 1995 crop year as stated. For the 1996 crop year, the proposal will apply with the exception of item (a) which applied only to the 1995 crop year.

4. Updated reconsideration letters.

Response: Suggested letters be signed by the Branch Chief.

Final: Any further reconsideration or appeal is made to a level outside the RSO, therefore, the director should sign these letters.

5. Updated notification letters.

Response: Suggested letters be signed by the Branch Chief.

Final: Proposed change was made, also a sentence was added stating the classification may also apply to the spouse and minor child(ren).

6. Modified Exhibit 7 to show both farm serial numbers and legal description(s) on one sheet.

Response: No Comments.

Final: Proposal was implemented.

7. Added procedure for DAP factors when updating the target yield. The target yield is updated every 5 years. All previous DAP factors are frozen except the last two years. If an error is made which makes a difference of 10 percent or more in any factor, then the factor may be updated for that year.

Response: No Comments.

Final: Proposal was implemented.

8. Added clarification on selection by crop. Citrus, stonefruit, and tobacco have been separated into various crop codes. These crops are selected as designated by their crop codes. California grapes are selected by grouping the types together, even though they are insurable by type. They may be rated by type.

Response: No Comments.

Final: Proposal was implemented.

9. Income protection (IP) and crop revenue coverage (CRC) policy insurance experience is added to the basic policy insurance experience. Group risk production policy insurance experience is kept separate and not used for NCS purposes.

Response: (a) Concern with numbers selected if we include hail.
(b) Concerns were raised with the need of separate DAPs and indemnities from low prices.

Final: (a) Hail is not excluded because the hail exclusion option is not available on these crops.
(b) These concerns are alleviated by using only the production portion of the experience for CRC.

10. Added procedure on including the social security number (SSN) or employer identification numbers (EIN) on the log. Do not duplicate SSNs/EINs. For carryover contracts with duplicates, a listing is being compiled to assist you in determining the appropriate SSN/EIN from the current SSN/EIN data base. An inquiry program is being developed to help assist you in this research.

Response: There may be a need for duplicate numbers.

Final: Proposal will be implemented. Actuarial is using the SSN/EIN (ID) number to identify producers on NCS. Each producer listed must have a separate ID number.

11. Added procedure for entities with experience in various states. For adjoining states, the insurance experience may be combined for selection and/or classification.

Response: No Comments.

Final: Proposal will be implemented.

12. Added procedure providing that entities selected because a year drops out of the base period will not be listed on NCS, if the current year is a nonloss year.

Response: Questioned if a nonloss year includes a year in which no experience is earned for the current year.

Final: Proposal will be implemented. No experience earned for the current year is included in this procedure as a nonloss year.

The following changes were implemented based on comments and other factors.

13. Updated Z scores exhibit list.
14. Added procedure to refer entities to the compliance office when they create or use another entity to avoid their NCS classification.
15. Substantial Beneficial Interest is determined at the time insurance attaches for the crop.
16. Added an exhibit for a listing of nonselected entities that were on the NCS supplement the previous year.
17. Per NCS regulations:
- (a) Updated various definitions per the FCIC regulations.
 - (b) Revised the number of days for requesting a reconsideration from 45 days to 30 days.

If you have questions, contact Pat Srader at (816)926-6344. Thanks for your assistance.

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CONCURRENCE:

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