Tom Zacharias, NCIS President

"Keep Up the Good Work!"

A few reflections and observations on 2017

For the past several years, NCIS has hosted a booth at the National Association of Farm Broadcasting's (NAFB) annual Trade Talk event. Held every November, Trade Talk is the centerpiece of the NAFB National Convention, connecting the ag industry with farm broadcasters to discuss issues and topics important to their organizations.

During Trade Talk, Laurie and I — and in the past Keith Collins, and more recently Mickey Paggi — conduct a series of radio interviews about the importance of crop insurance to America's farmers, and any changes or updates that farmers need to be aware of for the upcoming season.

This year, a special guest stopped by to say hello, former Secretary of Agriculture, John Block. Appointed Secretary in 1981 by President Ronald Reagan, Mr. Block served in that role until 1986 and was involved in the development of the 1985 Farm Bill. He also assembled a task force of agricultural and educational leaders to work toward the common goal of educating the public about the role of agriculture. The task force recommended the USDA coordinate local and state Agriculture in the Classroom efforts; there are now Agriculture in the Classroom programs in every state.

Mr. Block, in a gentle and statesman-like fashion, spoke of his support for crop insurance when he stopped by our booth. "I have always thought crop insurance was important, so keep up the good work," he told us.

When a "Hall-of-Famer" such as Secretary Block gave Laurie and me a pat on the back, it brought out my reflective side, especially as we close out 2017. So, here are a few year-end reflections and observations that resulted from a fortuitous encounter with the former Secretary of Agriculture.

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> —John Block

Reflections and Observations Across the Pond

A few NCIS staff, including myself and several representatives from our membership, had the opportunity to participate in the most recent Congress of the International Association of Agricultural Production Insurers, known as AIAG. The 34th Congress, held in Warsaw, Poland, was well attended and our Polish hosts were most gracious and hospitable (included in this issue of *Today*® is an article dedicated to the Conference).

At the conference, there were presentations on a variety of programs from around the world including Poland, Russia, China, and France. Rob Johannson, Chief Economist and Chairman of the FCIC Board was also on the program. Additionally, there were discussions on climate change, the role

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and use of index plans, and managing livestock disease. All of this to say that, internationally, there is a keen interest in managing agricultural risk through some form of insurance. To me, and maybe this was my "listening ear bias," the key ingredients appear to be: 1) some form of public/private partnership; 2) cost sharing by farmers; 3) risk bearing by the private and public sectors; and lastly, 4) the essential role of the loss adjustment process.

Ingredients 1-3 are the core of our crop insurance system here in the United States. In the U.S. we do have a successful public private partnership. It stands as a model of what can be accomplished when both the private and public-sector work together to provide an infrastructure that manages approximately $130 billion annually in agricultural liability, if one includes both federally and state regulated lines of crop insurance. ***"Keep up the good work."***

My takeaway on the role of loss adjustment was two-fold: 1) the need for a professionally trained loss adjustment force; and, 2) the need for an adequately sized loss adjustment force to manage large-scale claims events when they occur. Here again, we are extremely fortunate in the U.S. to have the capability to train adjusters, as well as the capacity to handle large-scale claims events such as the 2012 drought in the Cornbelt or the multiple loss events as was the case this year with hurricanes in Texas and Florida, drought conditions in parts of the Dakotas, prairie fires in the Southern Plains of Kansas and Oklahoma, and the California fires in Napa.

There are a couple of aspects regarding the loss adjustment process that probably go unnoticed in the daily scheme of things. One, the loss adjustment process in U.S. crop insurance is based on sound agronomic research. Each year NCIS supports approximately 15-20 agronomic research projects with leading agricultural universities in the U.S., as well as Canada. The results from these projects are then integrated into the loss adjustment procedures used in the field. This is done primarily for the state-regulated Crop-Hail line of business. Where applicable, the results of NCIS agronomic research projects are integrated into loss procedures for Federally-regulated crop insurance (MPCI). For more than 90 years, this industry-supported research has provided the science behind the industry loss adjustment procedures. This ensures company adjusters have the knowledge they need to determine accurate losses, giving farmers peace of mind knowing that their loss has been adjusted accurately and fairly. ***"Keep up the good work."***

Another aspect of crop loss adjustment that probably goes unnoticed outside of the industry is the importance of industry adjuster training facilitated through NCIS. Industry loss adjustment schools and field days ensure that adjusters are prepared and trained on industry approved loss procedures, which provides consistency among all companies. There is an article in this issue highlighting the 2017 summer schools and field days. More than 1200 adjusters were trained during 16 schools that covered 23 different crops and Whole-Farm Revenue Protection. Another way that NCIS ensures adjusters are adequately trained is through the "Crop Adjuster Proficiency Program" (CAPP®). CAPP® ensures that all Federal crop adjusters have demonstrated an approved level of proficiency and reinforces efforts to improve program integrity, enhance the image of crop insurance, and protect consumers by having qualified adjusters. A main goal in the development of CAPP® was to achieve uniformity in licensing of crop adjusters across state lines and reduce reciprocity issues between states. ***"Keep up the good work."***

Some Reflections and Observations on the July GAO Report

The Government Accountability Office's (GAO) July report entitled "Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs" no doubt, deserves a few comments before closing out 2017. The report recommended that revenue returns of the Approved Insurance Providers (AIPs) be dramatically slashed via changes to the existing Standard Reinsurance Agreement (SRA). The GAO in its report views AIP revenues stemming from the SRA as a "program cost."

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The report has at least two fundamental shortcomings. First, a heavy reliance upon an outdated 2010 Milliman study used during the 2011 SRA renegotiations, which made the apples to oranges comparison of Return on Equity to Return on Retained Premium. These two metrics are not directly comparable and to compare the two is simply misleading. Moreover, buried midway through the report, page 26 to be exact, GAO acknowledges that realized returns have been less than the 2011 SRA targeted return.

A second fundamental flaw is the assumption that the Administrative & Operating (A&O) expense reimbursement is adequate to cover AIP delivery expenses. The Grant Thornton analysis (**http://bit.ly/2iDHihW**), as well as recent analysis sponsored by the National Corn Growers Association (**http://bit.ly/2hRBBQ8**), clearly demonstrate the existence of an A&O deficit. The A&O deficit being the difference between A&O payments made to the AIPs to cover their delivery expense and the AIPs actual expenses. This deficit — calculated to be $700 million a year by Grant Thornton — is real and at the same time is totally ignored by crop insurance opponents.

Lastly, and what I feel is the primary concern with the report, is the recommendation to apply increases to the quota share provisions in the SRA to obtain program savings. An increase in the quota share provision is simply bad policy. I believe that such a proposal is ultimately distortionary and has disproportionate effects. That is, it would introduce perverse incentives for AIPs to intensify efforts to compete in areas that are currently less risky at the expense of other regions. In addition, due to the existence of the A&O deficit, increasing the quota share results in a disproportionate loss of net income for the AIPs. Our estimates indicate that raising the quota share provision by a point reduces the AIP pre-tax net income by 6.4 percent. Policymakers need to understand that ad hoc and arbitrary proposals to generate potential savings can result in disastrous financial outcomes for the private-sector delivery system and the constituents served by our industry. (Our work is never done…)

Reflections and Observations on Opposition to Farm Policy (and crop insurance in particular)

Throughout the past several years, NCIS has conducted a series of focus groups and surveys of registered voters. The results of these efforts indicate that voters (who are more than likely also taxpayers) and leaders in Washington D.C. are supportive of an effective national farm policy. Moreover, these same surveyed voters are supportive of a national farm safety net. That is, both the public and private-sector share in the risk, farmers have access to individualized risk management tools, and farmers pay a portion of the cost of the safety net.

As to crop insurance, per se, critics of the system are either unaware or choose to ignore the achievements of the U.S. system. First, crop insurance in the United States has achieved historic participation levels. Approximately 90 percent of planted acres are protected by some form of crop insurance. Crop insurance operates in an actuarially sound manner, due in part to a high participation level measured by acreage, regional and crop diversity, and adequate coverage levels. Approximately 80 percent of insured acres have at least a 70 percent coverage level.

It is also worth pointing out that Federal crop insurance is being effectively and efficiently administered and is operating within its financial targets. With respect to effective administration, the Office of Management and Budget's Improper Payment Rate for crop insurance is one of the lowest across all USDA agencies. At just two percent, it is much lower than the government-wide improper payment rate of 4.7 percent. As was mentioned earlier in the context of the recent GAO report, underwriting revenues for the AIPs are currently less than the targets prescribed by the 2011 SRA.

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> "Keep up the good work."

To summarize, let's be clear, crop insurance is achieving its participation and actuarial targets efficiently and under budget. ***"Keep up the good work."***

Conclusion

Federally regulated crop insurance has come a long way, and in some sense, has matured very quickly, if one starts the clock with the 1994 Reform Act. This is only a period of 23 years to the present. The industry and the RMA have achieved a great deal and much of the growth can be attributed to a certain amount of good fortune and lots of hard work. Thus, continuing to keep up the good work and serve our clients with the highest levels of professionalism and integrity should be our top priority.

In closing, I would say that the crop insurance industry in the United States and the Partnership currently finds itself well positioned for the future. Granted, we do have our opponents and our industry will continue to face challenges. However, I am not sure we could have any stronger advocates in the farm groups and commodity organizations, as well as members of the House and Senate Agriculture leadership. Our industry is genuinely appreciative of the support it receives.

In This Issue

I mentioned earlier in this message about the AIAG Congress held in Warsaw, Poland, in early October. In this issue of *Today*® you will find a great article that highlights the presentations and activities attendees experienced during this wonderful event. We hope you will also enjoy reading about the NCIS summer loss adjuster schools and field days and looking at the "in action" pictures. We could not begin to facilitate these schools without the help of the NCIS regional/state committees. Thank you to everyone who served as an instructor, plot leader or participant. Your dedication and service to the industry is appreciated. We also highlight the most recent NCIS scholarship recipients and invite you to get to know them a little better by reading their bios. We thank the NCIS Board of Directors and the Communications & Outreach Committee for their leadership and direction to allow us to increase the number of recipients this year from two to three. Thank you for helping us invest in the lives of these well-deserving students. And lastly in this issue, we provide a compilation of quotes from farmers and commodity organization leaders who voiced their support of crop insurance during the Farm Bill hearings and listening sessions held this year. We are, again, grateful for the support of our Congressional champions and all of those who support this industry.

As we finish out 2017, let me be the first to wish you and yours a Safe and Happy 2017 Holiday Season!