“The Long Run”

Welcome to the first edition of TODAY® magazine for 2018 as we put another year in the rearview mirror. We are now through the first year of a new Administration and we await the possibility of a new Farm Bill. As our old friend Jerry Jeff Walker would sing “…I’ve been down this road once or twice before…”

As I reflect on 2017 and prepare for 2018, it occurs to me that amid all the short-term noise and political uncertainty, we in the crop insurance industry should set our sights on the “Long Run.” And, of course, being an amateur retro-music person, I thumbed through the stack of “virtual” LPs on the Internet and found an old Eagles tune, “The Long Run.”

“Who is going to make it? We’ll find out in the long run…”

With the inception of the 2014 Farm Bill, I believe it is safe to say that crop insurance has become a fundamental element of U.S. agricultural policy and the cornerstone of the farm safety net. I personally do not see this changing in the next Farm Bill.

It did not go unnoticed by those in agriculture that at the American Farm Bureau Federation’s annual convention in Nashville President Trump was quoted as saying: “I'm looking forward to working with Congress to pass the Farm Bill on time so that it delivers for all of you, and I support a bill that includes crop insurance.”

The support that crop insurance continues to receive from the Administration and both Houses of Congress is humbling, to say the least. As we begin 2018, our industry must work diligently to continue to earn the support of our political leadership.

The progression of farm policy governed by risk management through crop insurance did not happen overnight. The enabling legislation was signed in 1938, and since that time, federally sponsored crop insurance has gone through several iterations (perhaps most notably the 1980 and 1994 Acts) before it became a central component of the 2014 Farm Bill. At each step in its progression, U.S. crop insurance became a more effective risk management tool for the American farmer and a better deal for the American taxpayer. Today, crop insurance protects 311 million acres on more than 130 different crops, and there are 62,000 different county/crop/practice/type combinations for farmers to choose from to get the best protection possible for their crops.

There is no denying that crop insurance has worked well since the 2014 Farm Bill was signed into law. Congressional Budget Office projections for crop insurance are down nearly $10 billion since the bill was enacted - in other words, we are coming in under budget. Farmers have stepped up to
help fund their own safety net, spending nearly $15 billion in premiums and shouldering more than $30 billion in deductibles since 2014. And, farmers from across the country made the effort to visit directly with lawmakers at Farm Bill field hearings to ensure Congress was aware that they prioritize crop insurance.

One farmer, testifying on behalf of the Kansas Farm Bureau, summed up the thoughts of rural America well.

"Without question, the most important USDA program is Federal crop insurance, and I’m not alone in that belief," she explained. "Crop insurance offers risk protection to many agricultural commodities and when disaster strikes, the indemnity check is in our bank account much sooner than any other USDA program."

"...We Can Handle Some Resistance..."

"People talking 'bout us. They got nothing else to do. When it all comes down we will still come through..."

Despite its success and popularity, U.S. farm policy and crop insurance in particular have their share of critics and opponents. In general, it does not appear that opponents of farm policy are seriously interested in any "reform" other than elimination of the farm safety net as it now exists. As former President Obama stated in 2013, we should ignore "...professional activists who profit from conflict..." Certain interest groups are paid to criticize our industry. Saying "yes" to crop insurance and farm policy is simply not in their lexicon. Their goal is to make crop insurance less affordable by capping premium discounts; less available by attacking revenue coverage and excluding some farmers with an arbitrary income means test; and less economically viable for the private sector by reducing rate-of-return targets.

Our industry has successfully defended itself from similar attacks in the past, because we have effectively communicated the necessity to keep crop insurance affordable, available and viable. We will “have the opportunity” to continue to do so in the future. And we should never fail to appreciate the support our industry has garnered from the various farm organizations and commodity groups who consistently defend us in the face of our opposition.

"You can go the distance, we’ll find out in the long run..."

It has been almost a quarter of a century since the 1994 Crop Insurance Reform Act was passed and we have witnessed the tremendous expansion and improvement of crop insurance in the United States.

In order for crop insurance to “go the distance,” farmers and their respective organizations must continue to recognize the value of the insurance system and our customers must have confidence that both the private sector and government will actively participate and work together to provide an adequate farm safety net.

One way to measure the value that farmers place on crop insurance is to take a quick look at their purchase of coverage. Since 2014, farmers have paid approximately $3.6 billion out of pocket annually for crop insurance, excluding state-regulated Crop-Hail insurance, despite tough economic times in the farm sector. Farmers’ coverage level purchases have also remained relatively constant since 2014.

The farm community must also have confidence that both government and the private sector will continue to work together to provide an adequate crop insurance safety net. The ringing endorsement of crop insurance by the leadership in both the House and Senate Agriculture Committees should help engender such confidence.

In addition, participating companies must continue to provide high-quality, cost-efficient service to both the farm community and the government. In terms of customer service, the high levels of farmer participation and ability of the industry to handle wide-scale crop losses such as the Southern Plains drought and Midwest flooding in 2011 and the historic Midwest drought in 2012 are examples of the benefits of private sector involvement. In terms of cost efficiency, both the Grant Thornton report ("Executive Summary-Federal Crop Insurance Program: Profitability and Effectiveness Analysis, 2016 Update" -http://bit.ly/2iDHihW) and the recent National Corn Growers Association analysis ("Evaluation of Returns and Delivery Costs of Private Crop Insurance Companies," Gary Schnitkey, Joshua Woodward, and Bruce Sherrick, January 2017 - http://bit.ly/2FuHXw1) point to the industry’s ability to deliver crop insurance in a cost effective manner.

In regard to “service to the government,” several metrics can be cited. As previously mentioned, Federal crop insurance has come in under budget projections according to CBO estimates. In its recent release, GAO reports ("Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs" -http://bit.ly/2ASK7Sx) that industry returns have been below the target..."
In order to continue our success, it is vital that government provide appropriate incentives and clear economic signals to both the insured farmer and its industry delivery partners. 

set in the last Standard Reinsurance Agreement (SRA) negotiation. Lastly, OMB's improper payments rate for crop insurance and the RMA is one of the lowest across government agencies.

“Did you do it for love, did you do it for money? We'll find out in the long run…”

I have had the privilege to work in this industry quite a while now and would say that more than the majority of folks involved in this business truly enjoy the work they do and are committed to it. They enjoy working with farmers and they enjoy working in agriculture.

That said, crop insurance is a business and economics matter and so do incentives. Economic incentives are at the heart of the public private partnership. In order to continue our success, it is vital that government provide appropriate incentives and clear economic signals to both the insured farmer and its industry delivery partners. These signals and incentives include the regulatory environment as well. It is essential that both the public and private sectors work together to ensure that the correct incentives are in place so that crop insurance is delivered efficiently and effectively. Examples of this include the review of policies and procedures, the establishment of accurate T-yields, and the development of accurate premium rates by RMA. Another example would be proper calibration of the gain and loss provisions in the SRA to ensure there is adequate risk sharing by the participating companies.

Although it is not clear how the next farm bill will unfold or when the next SRA will be negotiated, it will be important to establish the appropriate economic signals that continue to improve upon the current U.S. crop insurance system. This can only be done by clear and open communication between both RMA and the Industry.

In closing, I believe it is fair to say that our industry is in this business for the “long run.” Several major crop insurance carriers who are active today can trace their beginning to the late 1800’s or early 1900’s. From an NCIS perspective, we can trace the development of industry service to our predecessors of NCIA and CHIAA, both of which began in the early 1900’s. The investment by our industry to provide the necessary infrastructure, along with the partnership with the Federal government, is a testament to the long run commitment to serving the risk management needs of the American farmer.

In This Issue

As we begin 2018, we wanted to look back and review some of the activities of our association staff in 2017. The 45 individuals at NCIS work hard to help our members provide the best crop insurance product to America’s farmers and ranchers. We have a wealth of knowledge on our team and we strive to provide our best when we analyze policy or procedural changes, provide in-depth analysis on financial topics relevant to the industry, provide training for company underwriters, claims supervisors, trainers, and adjusters, or when we organize, lead, or participate in a myriad of other presentations, meetings, and activities every year. We appreciate the opportunity to serve our members, and the entire crop insurance industry, and we hope that “Excellence and Professionalism Remain Priorities for NCIS” showcases our dedication to NCIS and the industry.

One of our staff, in particular, had a good 2017 as he had two peer-reviewed articles published in economic journals. Dr. Harun Bulut’s articles are highlighted and summarized in the article on page 20. Congratulations to Harun on this wonderful accomplishment.

We also introduce you to Vern and Shelley Williams, a couple who has been farming in Washington for over 40 years. They were gracious enough to visit with us about why crop insurance is important to them. This issue also contains a valuable tool for agents and companies in the Insurable Crops, Location, and Plans chart that shows available insurance products for each crop and state.

For those of you attending our 2018 Annual Convention in Arizona, welcome! We are glad to have you with us as we celebrate the successes of our industry and look forward to another great year of providing the premier risk management tool for America’s farmers. We hope you enjoy all of the features of the magazine and we wish you a successful 2018.