It was just last year at the time of our Crop Insurance Industry’s Annual Convention that the 2014 Farm Bill had been signed. And for many of us, it has been yet another rendition of “Mr. Toad’s Wild Ride” ever since. By the time of this publication, we will still be in the midst of preparing for the spring sales season and attempting to ensure that we, as an industry, have put in place all that is necessary to successfully implement the majority of the provisions of the Bill. Much work has been done, much work remains.

The Work to Date

The Farm Bill strengthened crop insurance’s role as the primary component of the farm safety net. This was accomplished by adding to the current suite of crop insurance offerings and providing for coverage enhancements to the existing program. Through the use of crop insurance, farmers will be better able to protect against losses due to natural disasters and uncertain markets.

One of the new insurance products, Stacked Income Protection Plan, or STAX, is for upland cotton acreage only. STAX is an area revenue plan that a cotton producer may use alone or in combination with an underlying policy. It is available in all counties where Federal crop insurance coverage is available for upland cotton. The second new policy, the Supplemental Coverage Option, or SCO, provides crop producers with the option to purchase area coverage in combination with an underlying individual policy that allows indemnities to be equal to a part of the deductible on the underlying policy. SCO is available for spring barley, corn, soybeans, spring wheat, sorghum, cotton and rice in specific counties depending on the availability of the data. Additional crops and counties are being reviewed for inclusion in SCO beginning with the 2016 crop year.

In addition to area-based plans, the new Farm Bill may also result in a number of new crop insurance products coming to market. New product priorities are placed on policies that are better able to protect against losses due to natural disasters and uncertain markets.

The importance of the 2014 Farm Bill for U.S. agriculture cannot be overstated. With this legislation, crop insurance became the centerpiece of the farm safety net. Why? Because crop insurance has been, and continues to be, the common-sense solution for dealing with natural disasters and market uncertainties in agriculture. We enumerated the “Strengths of Crop Insurance” several years ago in this publication (February 2011). I will not review them all again here, but will highlight just a few of the more salient attributes of crop insurance that have served agriculture and the taxpayer well.

First, with the current crop insurance system, there is cost-sharing on three levels.
pay a portion of the premium, contributing more than $4.3 billion in 2014 alone. Taxpayers help discount premiums, making crop insurance affordable and widely available across the country. Second, insurance providers and taxpayers share in the risk exposure. Risk sharing between the public and private sector has ultimately led to the elimination of ad hoc disaster legislation saving taxpayer dollars over the long haul. Lastly, a farmer only receives a crop insurance payment in the event of a documented claim and only after their deductible has been met. As Senator Stabenow has said several times, “...the farmer receives a bill, not a check.”

The road to finalizing the 2014 Farm Bill was long and would not have been possible without the tireless work of Congressional leaders from the Senate and House Agriculture Committees who refused to take no for an answer. Agriculture associations and the farmers they represent worked hard to make sure Congress knew crop insurance was a top priority and the USDA’s Risk Management Agency (RMA) and crop insurance industry representatives provided support and feedback on proposals to ensure that the best safety net possible was available for farmers and ranchers.

While beginning the process of implementing the various Farm Bill provisions this past year, the crop insurance industry was simultaneously still performing its “day job” of servicing more than one million policies, which account for more than $100 billion in liability and insurance coverage on approximately 290 million acres. (Sounds like a lot to me!) It is this core program, anchored on individual coverage and private-sector delivery, which is the foundation of the 2014 Farm Bill. As such, it is important to remain ever vigilant to preserve and strengthen the core program. Last year in this publication, we emphasized that crop insurance must remain both available and affordable to our nation’s farmers and ranchers. We also stressed that economic viability of the private sector delivery system is key to maintaining the farm safety net for the future.

The Work Ahead

Granted we have made a great deal of progress in building the crop insurance industry we know today. There is more hard work ahead and here are only a few of the challenges awaiting us in 2015.

The Federal Budget Outlook

The Administration’s 2016 budget will most likely not be approved or implemented as proposed, but it does send a signal of priorities within the Executive Branch, and often serves as a template for budgetary offsets in legislative proposals. For the past several years, the Administration’s budget has called for substantial reductions in funding for crop insurance. Last year’s budget proposal called for major reductions across the board. Reductions were proposed in funding for farmer premium discounts. Such reductions would lead directly to less affordable premiums and possibly reduced crop insurance participation. Reductions in funding to the delivery system were also proposed. These reductions were proposed coming on the heels of the 2012 drought and sub-par underwriting results in 2013. In the December 2014 issue of TODAY®, we stressed that future economic viability was a key concern within our industry. Although financial results for 2014 are yet unknown, returns would appear to be an improvement over 2012 and 2013 results. Financial performance has fallen well short of agreed-upon returns targeted in the 2011 Standard Reinsurance Agreement. There has been some industry consolidation and re-alignment in response to recent economic performance. Further proposed reductions in funding for the delivery system could continue to cloud the economic outlook.

Agency Discretionary Actions

During the course of a discussion with an industry leader some time ago it was observed that RMA determines the price of the product, via the premium rate setting process, and in turn through regulatory and procedural requirements, also determines much of the industry’s cost structure. This observation has profound implications for our industry.

RMA Actuarial Processes

Most in industry believe that the RMA establishment of actuarial premiums determines the revenue generated through the risk-sharing provisions of the Standard Reinsurance Agreement (SRA). Let’s take it to its logical extreme; if RMA were to determine that the actuarially fair premium is zero, what would be the resulting revenue derived from risk-sharing? Point being, premium setting determines company revenue and returns.

In the fall of 2014, RMA released the results of an external review of the determination of price volatility factors used in premium setting for revenue coverages. Subsequently, RMA solicited comments from the public on the review. An assessment of these comments is still underway. More recently, the Approved Production History Yield Exclusion provision in the 2014 Farm Bill has been introduced requiring modifications to the current actuarial methodology. These two components of RMA’s actuarial process will likely be major determinants of the expected premium, and thus, industry revenue in the coming years.

Given the degree of risk insured and the role of crop insurance in the farm safety net, it is important that the actuarial processes utilized in crop insurance be well understood and as transparent as possible. Not only are publicly traded companies sharing risk in crop insurance, taxpayers dollars are at risk as well. Notwithstanding RMA’s autonomy in the establishment of fair premiums for farmers, stakeholders in crop insurance will demand more information regarding the nature and magnitude of the risks involved, particularly in light of changes in the nature of agricultural risks, either as the result of the climate or changes in agricultural technology.

Calls for Further Reform?

(“It’s the Same ‘Ol Wine (Whine) in a Brand New Bottle”) As we were closing out 2014, there was a rash of “late-to-the-party” calls for further reform of the crop insurance program. In these calls for reform were embedded some of the same year-in, year-out criticisms we have heard before.

“Who are those guys?”

(A great line from “Butch Cassidy and the Sundance Kid”) The calls for reform appear to emanate from a few academics supported by institutional think-tanks who are both financially and politically motivated to criticize. Let’s not be confused, there is a difference between academic freedom, scholarly academic research, and “paid-for professional advocacy.” Regardless of your political persuasion, President Obama got it right when he labeled...
the paid-for advocates as “...professional activists who profit from conflict.”

Unfortunately, opponents of farm policy seem to be in a better position to garner clever headlines and media attention than the hard-working men and women in agriculture who put food on our tables, fuel in our tanks and clothes on our backs.

A yet greater tragedy is that it is easier for these individuals to get press coverage when they are not held accountable for sensationalist claims and unsubstantiated data.

Two recent examples from late 2014 come to mind. First, a recent series of “white papers” from the Land Stewardship Project (LSP) made several negative claims about crop insurance. If one carefully, or even casually, parses through the LSP series there is no real analysis or evidence presented, simply a diatribe of unsubstantiated misrepresentations about crop insurance and the new Farm Bill. Similarly, there is the op-ed of Messrs. Babcock and Smith in the Wall Street Journal (WSJ) that ran on Christmas Eve. The opening sentence about crop insurance costs contains an $80 billion a year estimate that was challenged in several unpublished letters to the editor sent to the WSJ in response. As they say in parts of South Texas, where I grew up, “…that ain’t right…”

Fortunately, I do believe crop insurance and agricultural risk management get a pretty fair shake in the Ag press. However, it is important and remains critical for our industry to educate the public-at-large about the importance of U.S. agriculture and the facts surrounding crop insurance particularly when misrepresentations and unsubstantiated claims about crop insurance surface in the public arena. To this end, NCIS has recently finished updating the “Just the Facts” section on the Crop Insurance in America website (www.CropInsuranceinAmerica.org). “Just the Facts” answers several questions about how crop insurance actually works, how the financial parameters of the program work for the Federal government and participating private-sector insurance companies, and how crop insurance was improved through the 2014 Farm Bill.

Conclusion

No doubt, a great deal of effort has transpired since last year at this time. However, the ultimate outcomes from this effort are unknown. We will probably not know how the Farm Bill plays out for several more years to come, or the impact of budget attacks likely to surface in 2015 and beyond. As events unfold, industry must continue to be ever watchful and work together and work with other program stakeholders. How is this to be achieved?

Starting at home base and looking into the mirror, NCIS through its Standing Committee structure is a place to start. Currently, all federally approved insurance providers are NCIS members, and are represented on virtually every major functional Standing Committee ranging from Loss Adjustment and Procedural development, to Data and Information processing to Actuarial Development and Analysis of crop insurance issues. These Committees composed of industry subject matter experts have worked diligently throughout 2014. For 2015 to be successful, these efforts must be maintained.

Industry must continue to work with RMA. The essence of the public-private partnership is the relationship between industry and RMA. There are some inherent tensions as RMA serves multiple roles, being both a regulator of the companies and active in program development. From an industry perspective, the business focus must somehow be tempered with USDA’s agricultural policy objectives. The Conservation Compliance and Beginning Farmer and Rancher provisions in the Farm Bill are examples. Crop insurance has come a long way, and effective communications between RMA and the industry can only help foster success in the future.

Industry must continue its educational and outreach efforts. It becomes painfully obvious from reading the popular press that both the financial stability of agriculture and the need to maintain a viable farm safety net are not well understood. Crop insurance trade groups, both company and agent, need to work together so our messages of successful private-sector delivery are cohesive and consistent.

While players within the crop insurance industry are fierce competitors in the marketplace and may not be in perfect alliance on all nuanced issues, all segments must come together to promote areas of commonality. For example, we all agree that our customers take top priority and deserve the best most efficient service, which requires constant investments in the delivery infrastructure and training. We all agree that being good stewards of taxpayer dollars is paramount and must be promoted by preventing the need for costly ad hoc disaster assistance, by defending actuarial soundness and by continually stamping out waste, fraud and abuse. Finally, we all agree that private-sector delivery underpins today’s effective and efficient system and must be protected.

Restating the title of this column, crop insurance remains a “Work in Progress.” Quite frankly, for those who have been in industry for much of their careers (including yours truly), this has always been the case. The industry has grown and exceeded most expectations beyond any reasonable set of metrics. I remain confident that we will continue to improve crop insurance for the betterment of the farmers and ranchers we serve.

As we look at the challenges and opportunities facing the crop insurance industry in 2015, the staff of NCIS will continue to work diligently to provide the best possible service to our members. The TODAY® magazine has regularly offered articles that explain what some of our services are and why they are important. One of these is the agronomic research studies NCIS and its predecessor organizations have been involved in since the mid-1920s. While we have provided research results and how they have been incorporated into industry loss procedures, we’ve never really said why this is an important endeavor for the industry. In the article NCIS’ Agricultural Research and Technology Program 90 Years of Research Ensures Accurate Loss Procedures, staff agronomists Drs. Mark Zarnstorff and James Houx explain how a crop research program is implemented, how the data from the studies are verified and how industry loss procedures are updated or verified once the study is completed. This issue also contains a valuable tool for agents and companies in the Insurable Crops, Location and Plans chart that shows what insurance products are available on which crops in which states. It contains more information this year due to the expanded coverages from the 2014 Farm Bill and is a quick, handy reference if you just want to know if a crop is insurable in your state. We hope you enjoy all of the features of this February magazine, which also includes an article about the new Whole Farm Revenue Program.