



Crop Insurance and the 2014 Farm Bill: Implementing Change in U.S. Agricultural Policy

The Ten Considerations Reconsidered
(sort of)

**“Ten Considerations Regarding the Role of Crop
Insurance in the Agricultural Safety Net”**

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Organization of Presentation

- NCIS Backgrounder
(Paid political announcement)
- Industry Update
- Farm Bill Implementation Status
- Reconsidering the Considerations
- “Where to Now St. Peter?”

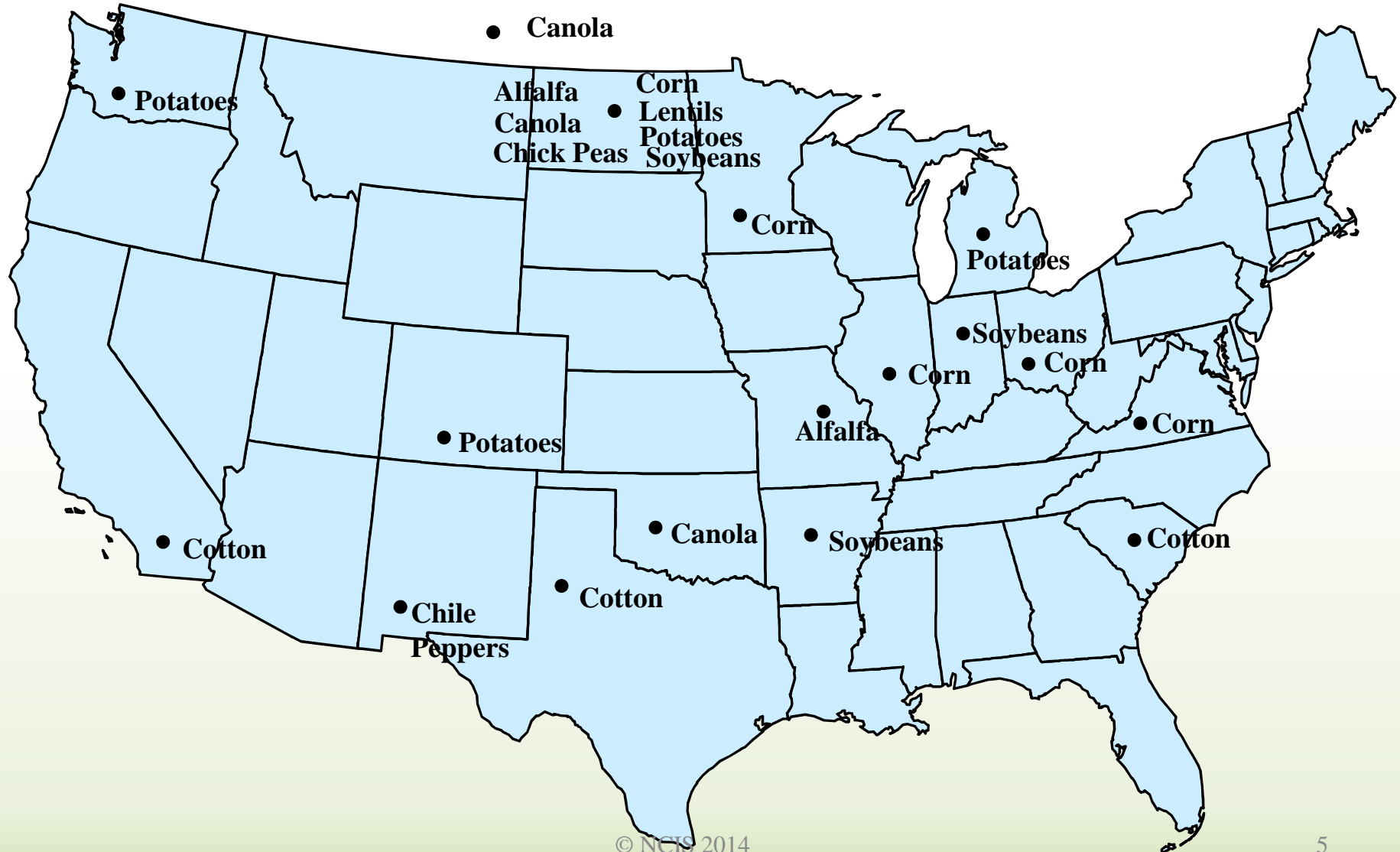
Who is NCIS?

- National Crop Insurance Services
- Not-for-profit crop insurance industry trade association
- Members are crop insurance companies
- All companies writing Federally sponsored Crop Insurance are NCIS Members
 - 97% + of all Crop Hail policies are written by an NCIS member company
 - International insurance and reinsurance companies
- Disclosure: I work for NCIS

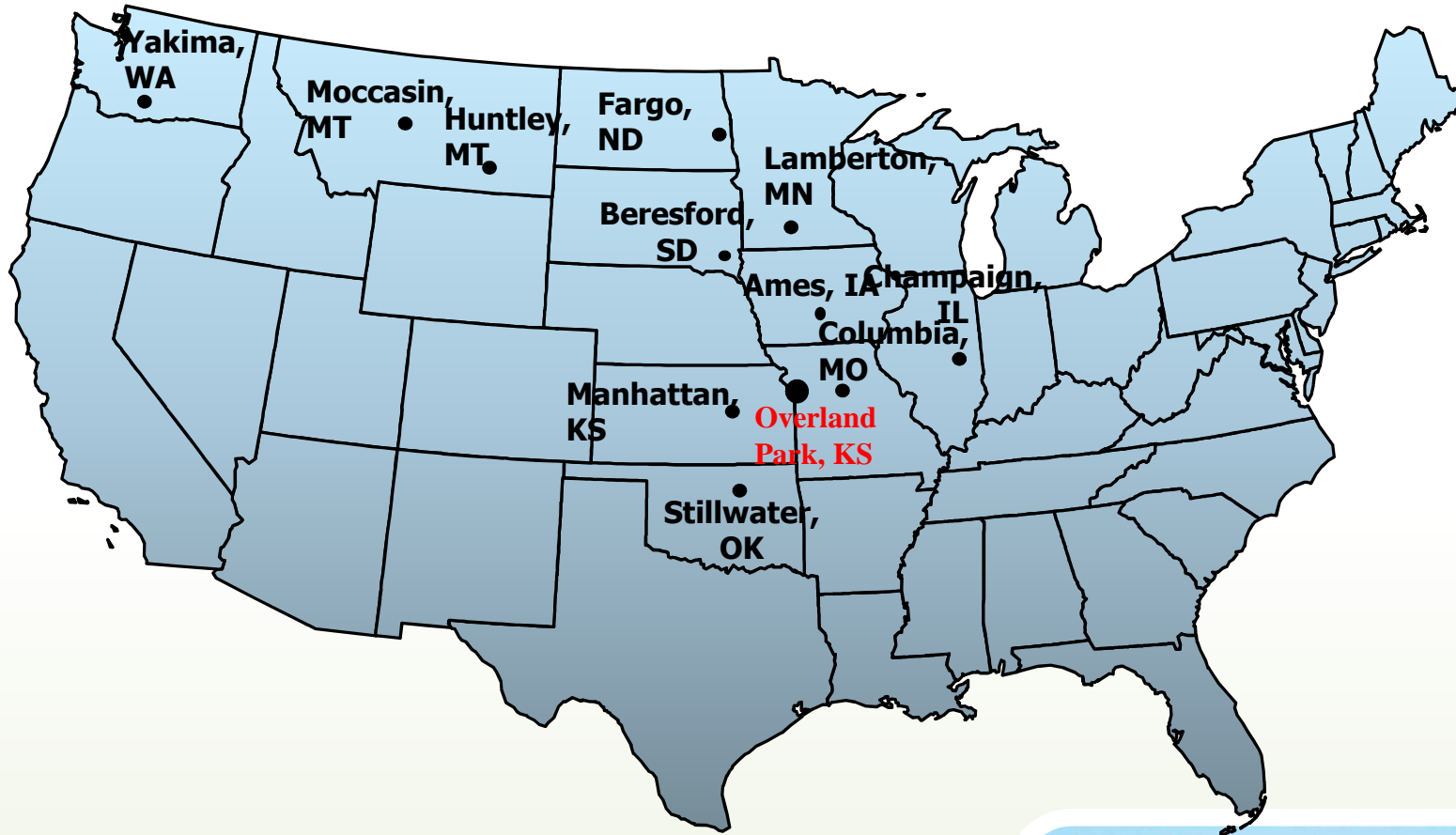
NCIS Functions

- Crop Insurance Program Development and Analysis
 - Policy Analysis, Loss Adjustment Procedures, Legal Analysis, Agronomic Research
- Economic and Actuarial Analysis
- Education and Training
 - Loss Adjuster Schools – 14 (1,269 attendees)
 - National Conferences – 4 (1,101 attendees)
 - Annual Regional/State Meetings – 19 (478 attendees)
- Crop-Hail Advisory Organization and Statistical Agent
 - Licensed by Individual State Insurance Department
- Public Relations and Industry Outreach

2014 NCIS Crop Research (Industry Funded)



2014 NCIS Major Conferences and Adjuster Schools

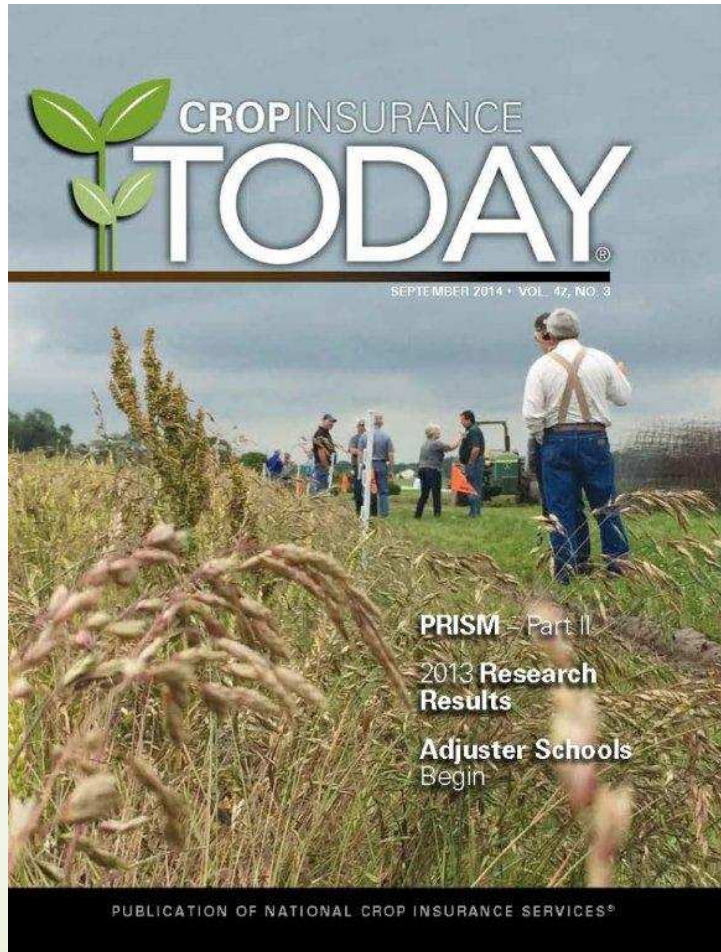


Major Conferences

- Train the Trainer Conferences – Spring and Fall
- Claims Managers' Conference



Industry Communications



Past Articles

- “Year in Review”
- “Revenue Volatility Factors”
- “Industry Rate of Return”

Industry Update

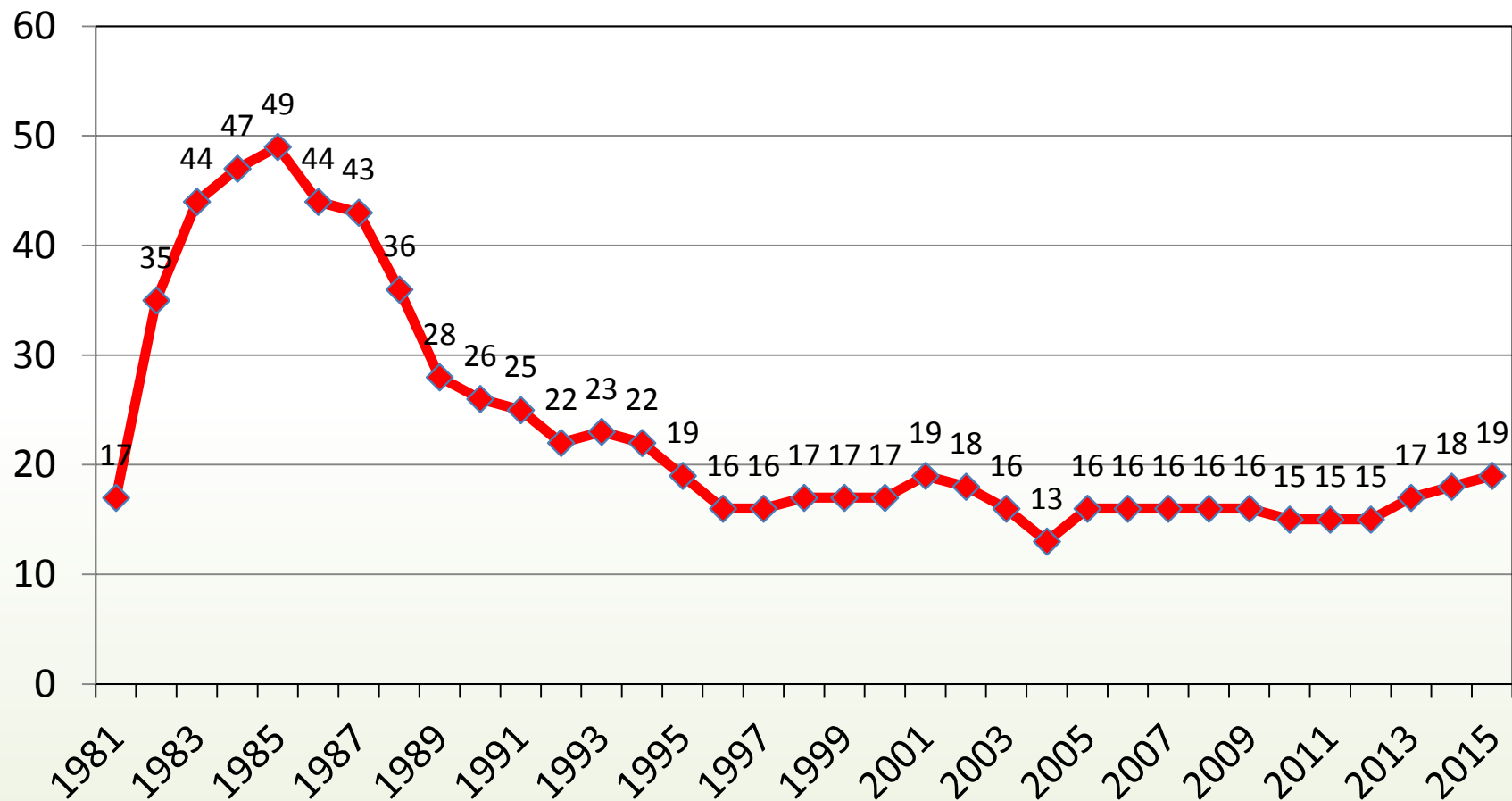
“Who are These Guys?” (Redux)

- 19 AIPs for RY2015
- Most AIPs/SRA holders are now subsidiaries of large insurance and / or financial entities
- New AIPs
 - Global Ag (California)
 - Climate Corp (Kansas/California)
 - International Ag (Iowa)
 - Technology Insurance Company (Ohio)

“...There’s a New Kid in Town...”

(Stay tuned for further developments)

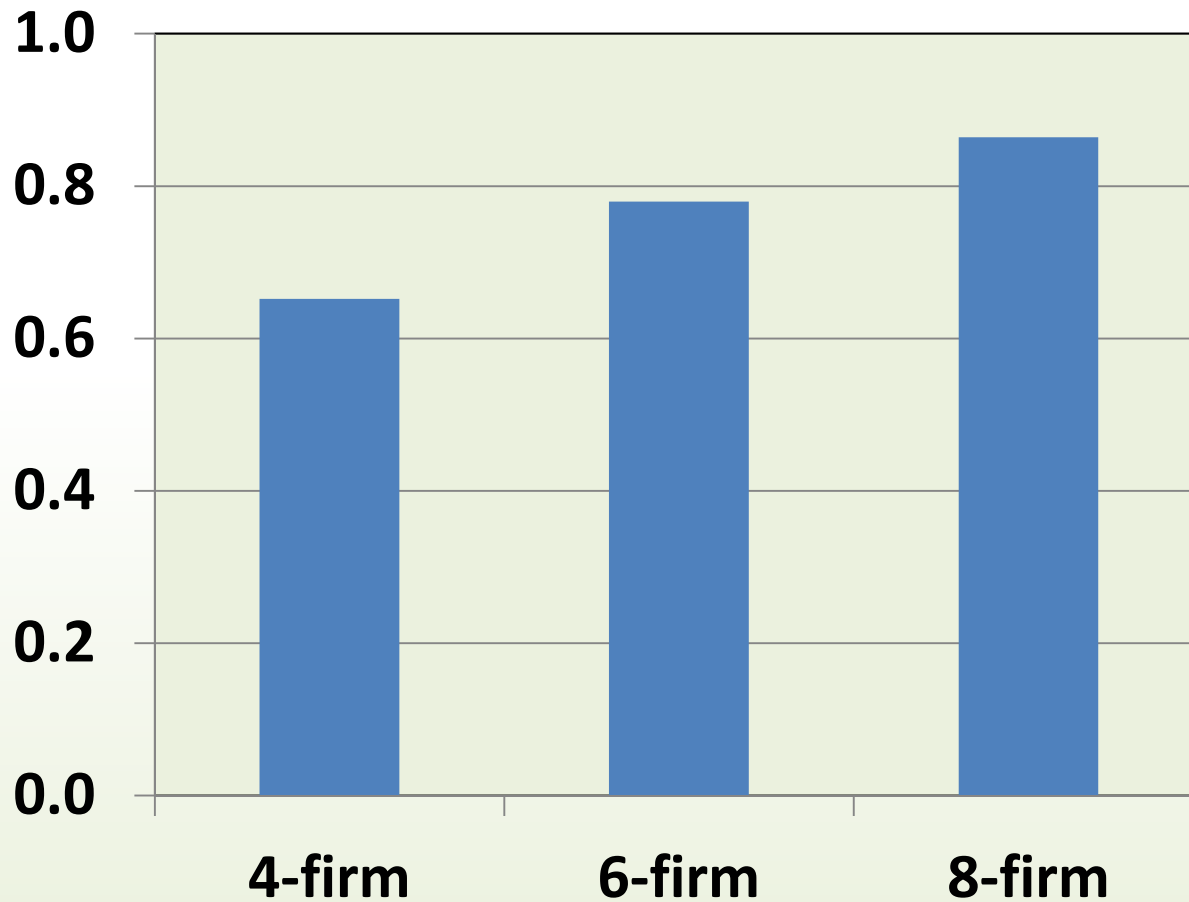
Number of AIPs



Source: 1981-84 RMA; 1985-2015 NCIS

AIP Concentration Ratios, 2012

1.0=100% of Industry Premium

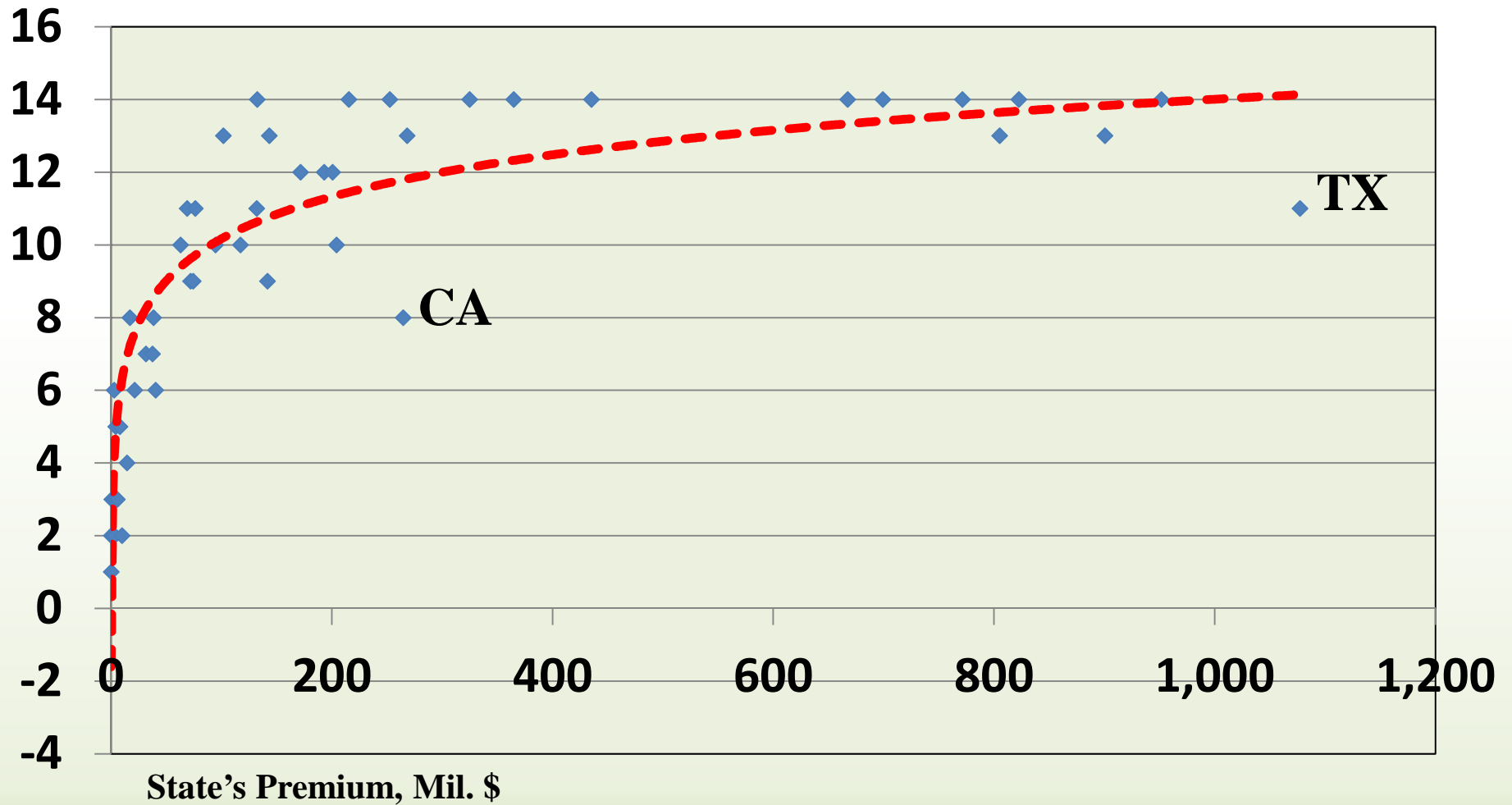


Premium and Number of AIPs per State, 2012

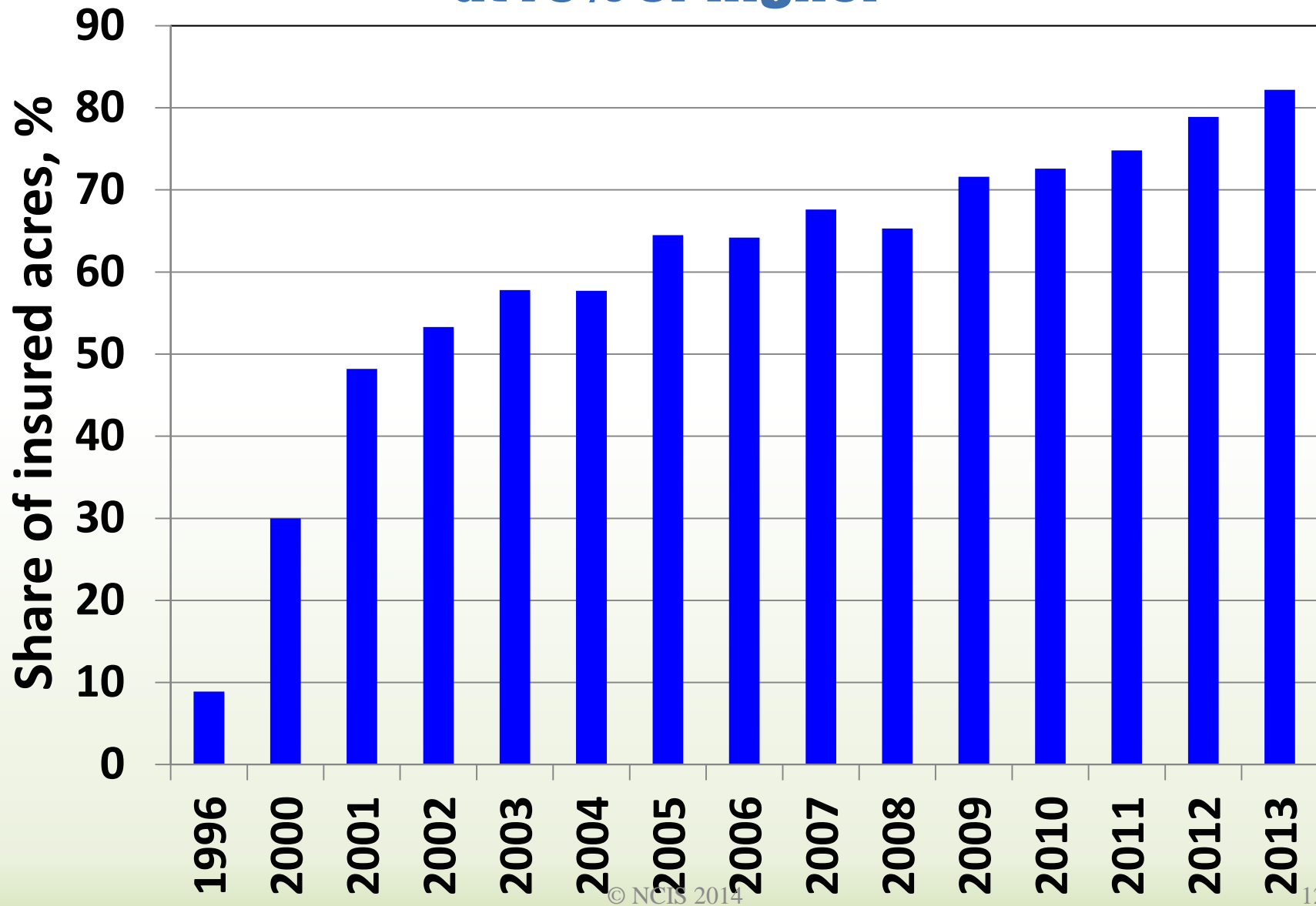
(Critical Level of Premium Volume)

AIPs/State

- Loss Ratio not a Predictor -

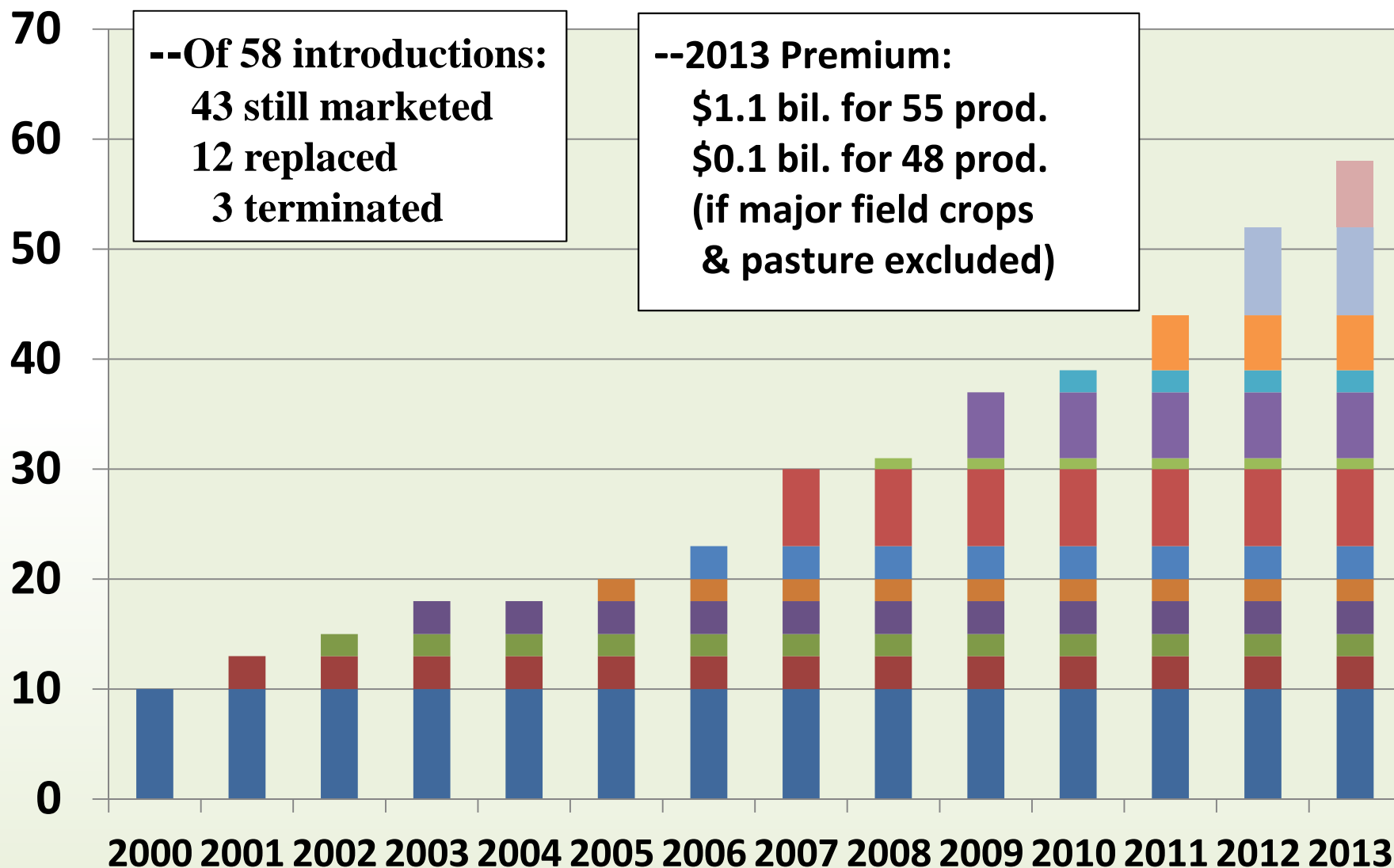


Share of Insured Acres Covered at 70% or Higher

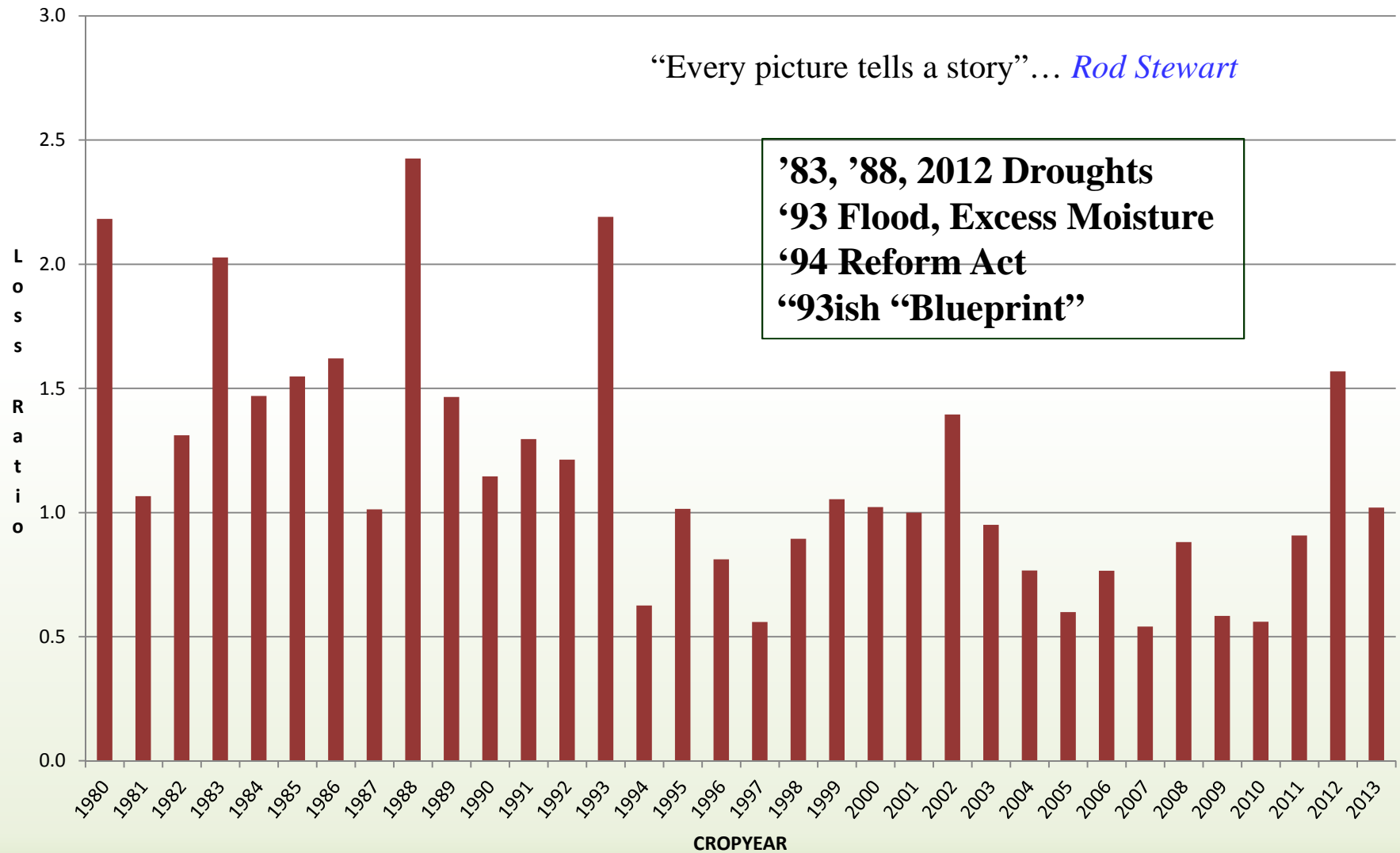


Cumulative Product Introductions Since 2000

Products



Multiple Peril Crop Insurance United States Loss Ratio 1980 - 2013



Farm Bill Implementation Status

Chronology/Timeline

Date	Action
February 7, 2014	Farm Bill Signed into Law
March 6, 2014	First RMA Meeting
June 30, 2014	Interim Final Rule
July 1, 2014	Start of 2015 RY
July 10, 2014	Farm Bill Implementation Hearing
July – September 2014	Agent/Company Training
September 2-4, 2014	Extension Farm Bill Meetings
September 30, 2014	Sales Closing Date for Fall Crops (First Winter Wheat SCO)
October-November, 2014	Agent/Company Training Preparation
November 5-6, 2014	NCIS Train the Trainer
November 24-28, 2014	RMA Crop Year 2015 Actuarial Release
November – December, 2014	Continued Agent Training
January 31, 2015	First Spring Sales Closing Date (February 28 & March 15 – The Big One)

“...make a list of the things I do for you...”

Agricultural Act of 2014

Proposed Implementation Timeline

Farm Bill Initiative	Implementation
Supplemental Coverage Option	2015 RY
Stacked Income Protection Plan	2015 RY
Whole Farm Revenue Protection	2015 RY
Interim Rule amendments to all basic provisions and the Catastrophic Endorsement	2015 RY
Beginning Farmer and Rancher	2015 RY – spring
Crop Production on Native Sod	2016 RY
Authority to Correct Errors	2015 RY
Highly Erodible Land & Wetland Conservation for Crop Insurance (“Conservation Compliance”)	2015 RY
Late Payment of Debt	2015 RY
Enterprise Units by Irrigation Practice	2015 RY
Coverage Level by Irrigation Practice	2015 RY
Adjustment to APH Yields	2016 RY
Permanent Enterprise Unit subsidy	2015 RY
Catastrophic coverage level premium rate reduction	2015 RY
Corn with low test weight (provide additional 60 days to market crop)	2015 RY
Catastrophic coverage prohibition on grazing use crops	2015 RY

“...make a list of the things I do for you...”

Agricultural Act of 2014

Proposed Implementation Timeline

Farm Bill Initiative	Implementation
Interplay between existing Livestock Gross Margin Dairy crop insurance program and the new FSA Dairy Margin Protection Program	2015 RY
FSA information sharing	2015 RY
Publication of rebating violations and sanctions	2015 RY
Malting barley endorsement replacement	2015 RY
Acreage Crop Reporting Streamlining Initiative (“ACRSI”)	2015 or 2016 RY
Index-Based Weather Insurance	2016 or 2017 RY
Crop Margin coverage	Dependent on FCIC Board
Peanut Revenue	Dependent on FCIC Board
Food Safety Insurance	Study/Review
Enterprise Units by Risk Area	Study/Review
Biomass Sorghum	Study/Review
Catfish Margin	Study/Review
Livestock Swine Insurance	Study/Review
Poultry CAT Disease	Study/Review
Poultry Disruption	Study/Review

Economics of Implementation

- ARC/PLC likely to affect buy-up participation (SCO and STAX too)
- New Products/Program changes will alter risk exposure and delivery expense
- Supplemental participation uncertain

Final Farm Bill Thoughts

(for now)

- Early Days
- Implementation Schedule Delay/Changes
 - So far, so good...
- “What will they do in 2000 years?”

Leon Russell – Roll Away the Stone

The “Considerations – Reconsidered”

(1st in a Series??)

1. Is There Public Benefit From a Financially Stable Production Agriculture?

- **The** essential question justifying public policy intervention
- Ultimately, the **response depends on what happens without public support**—what problems does support address that would otherwise manifest themselves?
- **What does the public think and does that matter?**
 - Public opinion survey results
- **How measured?**

Some Selected Survey Results

NCIS conducted the first public opinion poll after farm bill passage... (that we know of...)

- 1,000 registered voters surveyed late March 2014
- First half of survey placed agriculture in context
- Second half focused on farm policy details

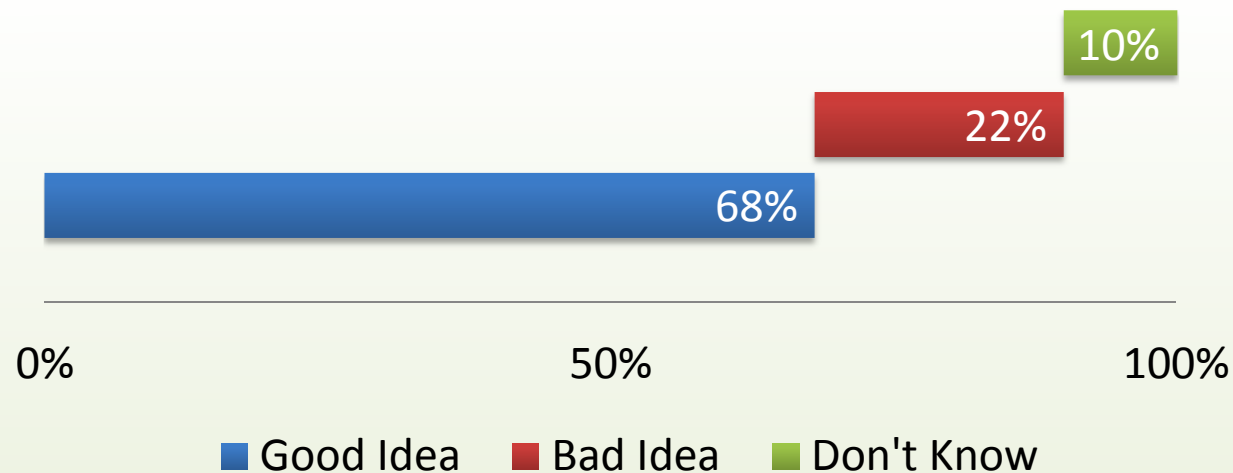
...because we were curious

- What are the public's impressions of farmers?
- What are the public's impressions of farm policy and crop insurance?
- Was agriculture affected by the farm bill fight?

FINDING

Crop insurance is popular...

As you may know, the federal government helps operate a crop insurance program for the nation's farmers, to protect them in the event of a natural disaster, drought, flood, or crop failure. Farmers purchase insurance policies from private companies, and the federal government pays a portion of the farmers' premiums. Does that program sound like a good idea or a bad idea to you?

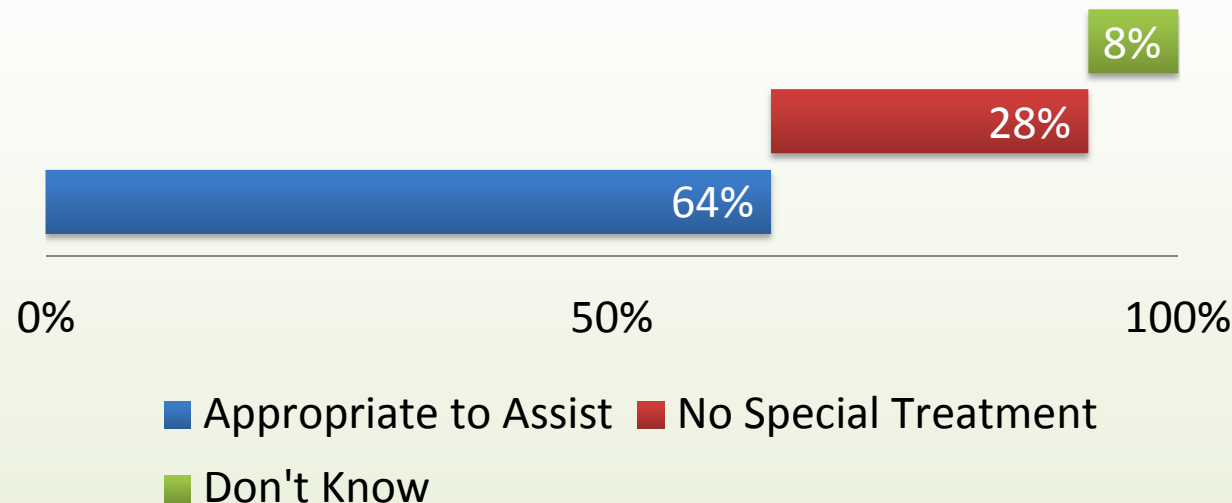


FINDING

... Even when people find out farmers are businesses, not overall-wearing gardeners.

Which of the following statements comes closer to your view:

- a) Because of the unique importance of farming, it is appropriate for the federal government to offer financial assistance to farmers, particularly when it comes to protecting them from financial ruin. Natural disasters can strike at any time, and our nation's food supply is too important to risk by letting farmers go bankrupt.
- b) Most of our nation's food is grown by farming corporations that can easily afford to pay for their own crop insurance premiums without taxpayer money. It is the responsibility of any business to protect itself with insurance, and farmers should not get special treatment that the federal government simply cannot afford.

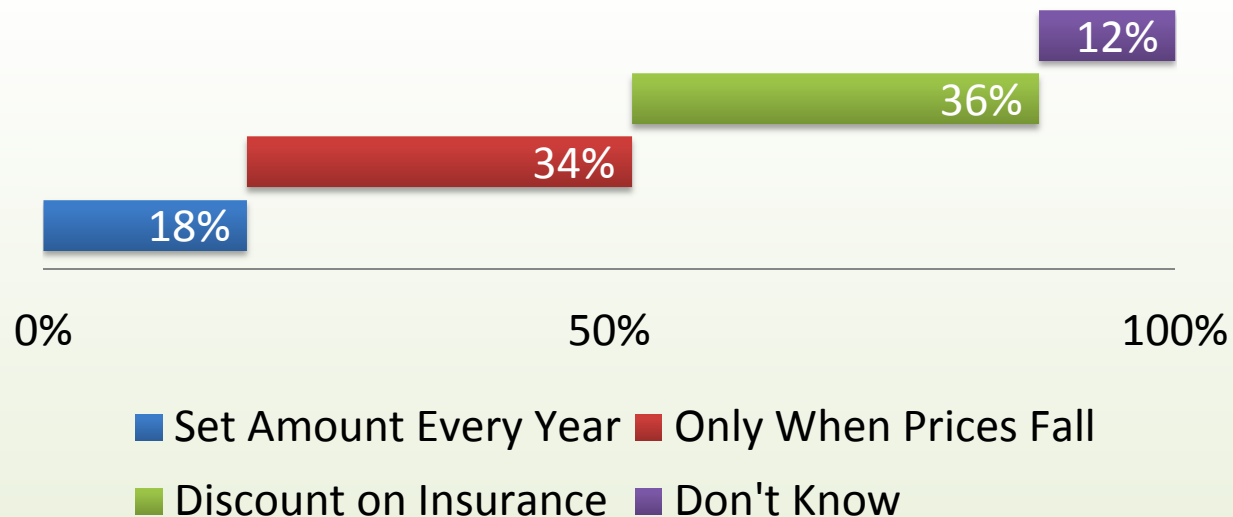


FINDING

When presented with policy options, it's clear the public thinks Congress got it right.

Which of the following federal farm policies do you think would be best for the country:

- a) Farmers should receive financial assistance from the government for a set amount every year, regardless of crop prices or weather conditions.
- b) Farmers should receive financial assistance from the government only when prices fall below a certain level.
- c) Farmers should receive financial assistance that would provide them a discount on insurance that they would purchase from a private company, that would only pay a claim in the event of bad weather or low prices.



2. Should there be Taxpayer Support for a Farm Safety Net?

- Given a public interest in supporting agriculture, **support may or may not take the form of a “safety net”**
 - E.g., invest in safety net or in other mechanisms?
- Economists look to the market as the first and best solution
 - Identifying market failures that justify farm financial transfers is controversial
- Defensible support regimes may be different in the short and long run
- **In the short run**, public interest and political support suggests continued financial support for production agriculture at **some level** and in **some form**

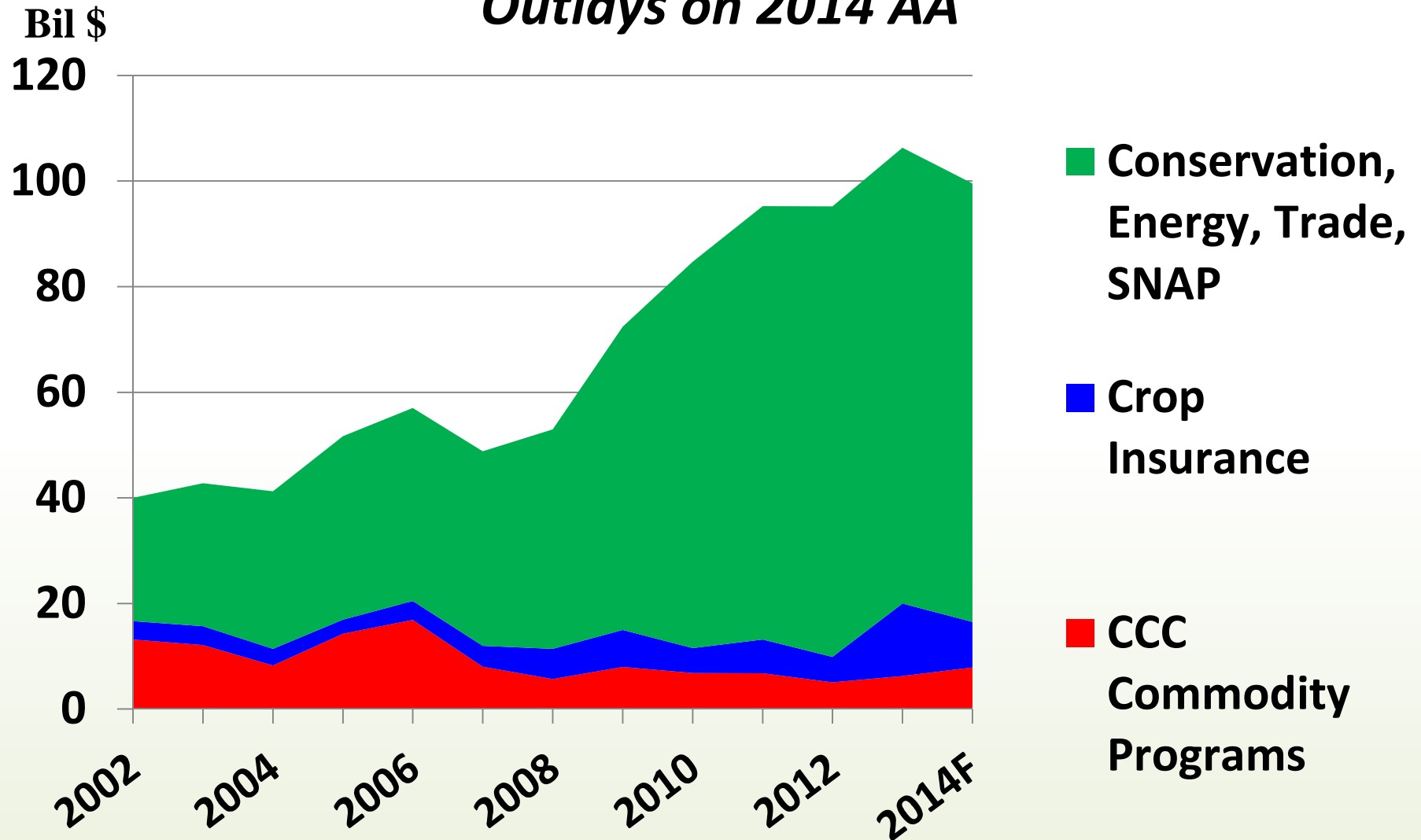
3. What is the Willingness and Ability to Spend on the Farm Safety Net?

- Probably less willingness and definitely less ability to spend than in the past
- **Key considerations in funding levels:**
 - Efficiency, equity of current approach
(researchable areas)
 - Demand for and availability of funding of non-ag areas

(social opportunity cost)

Farm Support in Perspective

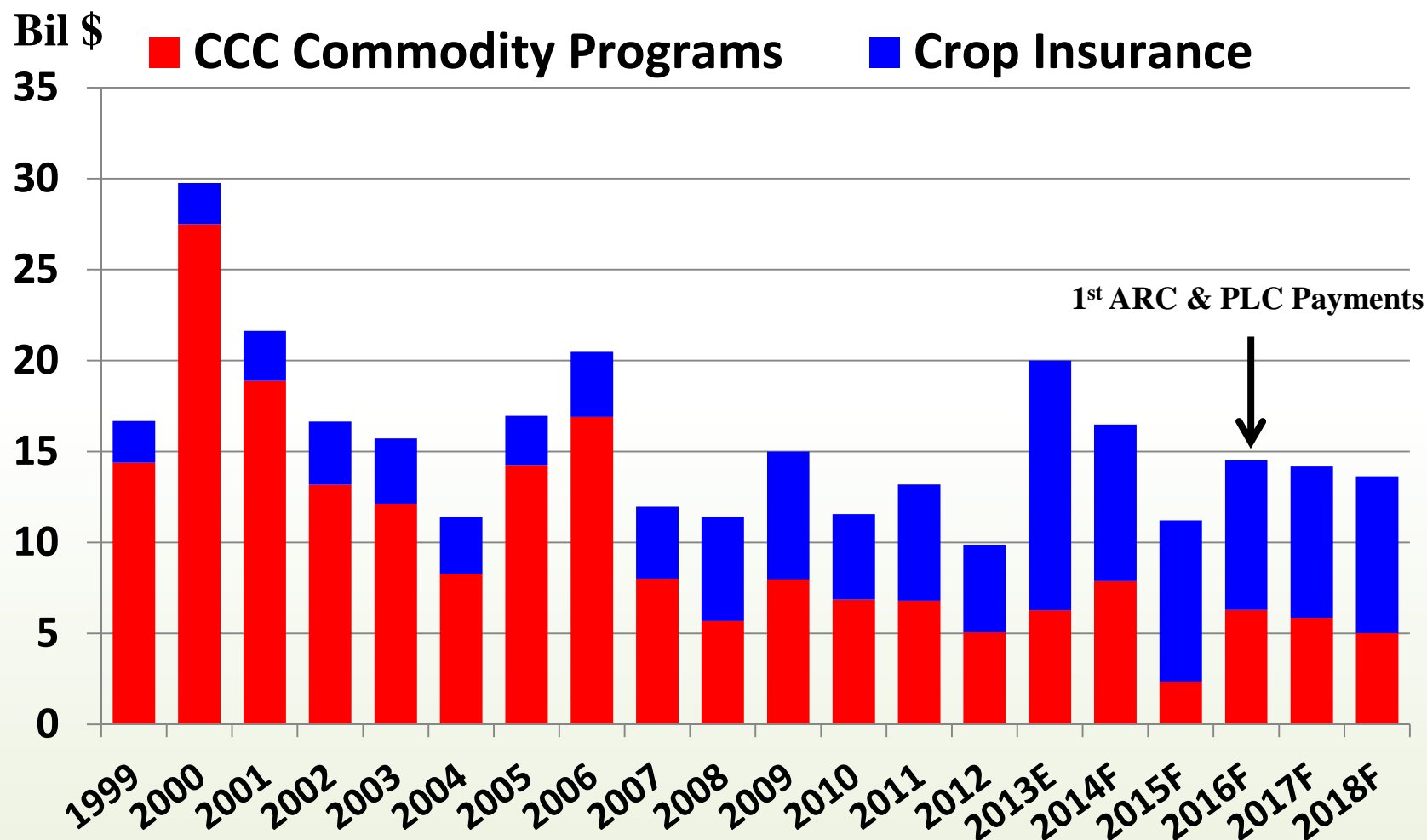
Outlays on 2014 AA



Sources: Data from Commodity Credit Corporation (CCC), RMA, CRS (Monke, 2010) and CBO April 2014 baseline for 2014

Projected Outlays on the Farm Safety Net

Crop Insurance and Farm Programs



Sources: Data on spending on Commodity Credit Corporation (CCC) commodity programs & crop insurance through 2011 are from USDA; other data from CBO's 2014 April Baseline.

In What Form?

4. *Ex Ante* or *Ex Post* Support

- Crop insurance's history is entwined with ***ex post* ad hoc and standing disaster assistance programs**:
 - 100% taxpayer cost, inequitable payments across years and crops, unpredictable timing, poor risk reduction incentives
 - See 1989 GAO report with foretelling recommendations titled: “Crop Insurance Can Provide Assistance More Effectively Than Other Programs”
- **Ex ante insurance**: farmers enroll prior to planting, liability and premiums established before indemnities, and farmer knows coverage per acre, policy deductible, insured perils
- Recent literature indicates *ex ante* crop insurance may be preferred from the perspective of a government that gets utility from farm financial security (Innes, Bulut and Collins) (**researchable area**)

5. Income Support or Risk Management?

- 2014 Farm Bill emphasizes risk management where farmers pay a portion of the premiums and do not receive a payment unless there is a verifiable loss—although crop insurance does not address multiyear price declines
- But the Farm Bill sustains free revenue/price support via ARC/PLC, which are designed to complement risk management
(But,...only in the event of loss)
- This experiment should be closely watched
(researchable area)

Questions 1, 2, 4, 5

- Upon Reconsideration...

Answers still in the affirmative

Agricultural Policy has landed here (for now)

Questions 67 and 68

“...Did this meeting of our minds together
...happen just today, somewhere (way)
I’d like to know,
Can you tell me, please don’t tell me
It really doesn’t matter anyhow...”

Chicago

6. Is Current Risk Sharing Optimal?

- **Current sharing:** producers, ALPs, reinsurance companies, FCIC
- **Producer subsidy:** largest program question mark **(key researchable area)**
- **Company retained risk:** incentivizes reduced losses
 - Current SRA structure versus future
- **Administration's Budget – See #3**

7. What about Area v. Individual Plans?

- New area plans: Title I, Title II
- Arguments for: correlation in farm and area yield, lower admin costs, less moral hazard & adverse selection
- Arguments against: lack of correlation in farm and area yield (basis risk), low demand to date
- Incentive Compatibility (BCZ)
- New tests: will supplemental area plans effectively reduce risk, are they substitutes or complements and will they sell? **(researchable area)**

8. & 9. Should the Safety Net be Incentivized?

Can Incentives be Improved?

- Goal: ensure consistency with market incentives that signal expansion, contraction, cost reduction
- Current incentives: premium subsidies, sales commissions, company risk sharing
- All need constant review and thinking (**researchable areas**)
 - ***Premium subsidies***: designed to foster participation and risk management
 - impacts of alternative structures and eligibility criteria
 - ***A&O payments***: designed to foster participation
 - impacts on incentives and industry structure
 - ***AIP risk sharing***: designed to foster program cost reduction
 - adequacy of current returns

10. Is Crop Insurance Distortionary?

- Theoretically, Yes—caused by risk reduction and subsidization
- Empirically, positive, but not large
(researchable area)
 - High commodity prices have been primary cause of land use changes
 - Some mitigation from: most crops being covered, lower APH/higher premium rates when a loss occurs; deductibles; high-risk land provisions
 - **New**: conservation compliance, native sod provisions

Questions 6-10

“...now that we’ve found each other

Where do we go now?

I’d like to know what you’re thinkin’?

Answer me slowly now

The questions of a thousand dreams

What you do and what you see...”

Buffalo Springfield – Stephen Stills

“...where to now St. Peter?...
I understand I’m on the road
where all that was is gone...”



“Where to Now St. Peter” by Elton John

Availability

- Regional Availability
- Product Availability

New Farm Bill Promotes Availability

Affordability: Sustaining Participation

- Adequate Participation Results in Sufficient Actuarial Pool
- Adequate Participation Reduces Political Demand for Ad Hoc Disaster

New Farm Bill Makes Supplementals Affordable

Currently No Means Testing
or
Reductions in Premium Subsidy

Viability

- Private Sector Delivery System
 - Private Sector Delivery the PLAN
 - SCO/STAX – to be delivered by Industry and Agents
- Economics Must Work

In Summary

- Political and Public Image
 - Popular and Effective
(Despite Well-Positioned Critics)
- Economics
 - Margins Have Narrowed
 - High Risk Environment
- Future
 - Farm Bill a Definite Positive (Availability)
 - Affordability and Viability are Key

Thank you

Questions – Comments - Discussion



Websites

NCIS

www.Ag-Risk.org

Crop Insurance in America

***Just the Facts Tab**

www.CropInsuranceInAmerica.org

Social Media



Twitter

[@USCropInsurance](https://twitter.com/USCropInsurance)



Facebook/Pinterest



[CropInsuranceInAmerica](https://www.pinterest.com/CropInsuranceInAmerica)



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