



CROP INSURANCE OVERVIEW

A COMPANY PERSPECTIVE

BOB HANEY, PRESIDENT
RAIN AND HAIL L.L.C.

RAIN AND HAIL LLC

9200 NORTHPARK DRIVE | SUITE 300 | JOHNSTON IA 50131

800.776.4045 | www.RAINHAIL.com



ABOUT RAIN AND HAIL

- Rain and Hail began in 1919 as the Rain and Hail Crop Insurance Bureau and became a Managing General Agency, servicing the Federal Multiple Peril Crop Insurance (MPCI) program in 1981
- Owned by the ACE group of companies – strong financial backing (A+ rated)
- Nationwide writer of Federal Crop Insurance
- Farm Property and Casualty coverage
- Commercial Ag with the acquisition of Penn Millers

2011 NORTH DAKOTA INDUSTRY PREMIUM

| Coverage Level | Premium for All Crops | Losses for All Crops |
|------------------|-----------------------|----------------------|
| 50% | \$14,508,446 | \$11,729,245 |
| 55% | \$3,174,314 | \$1,521,371 |
| 60% | \$21,334,875 | \$18,523,343 |
| 65% | \$103,117,831 | \$125,884,666 |
| 70% | \$425,948,160 | \$529,615,899 |
| 75% | \$360,425,231 | \$447,236,123 |
| 80% | \$114,504,875 | \$150,779,023 |
| 85 % | \$7,824,303 | \$11,436,179 |
| 90% | \$7,053,235 | \$253,904 |
| ND Total | \$1,057,891,270 | \$1,296,979,753 |
| US Total | \$11,894,658,693 | \$7,228,549,168 |
| ND % of US Total | 11.25% | 18% |

CROP INSURANCE – A LOOK BACK

- Started program/formed Federal Crop Insurance Corporation in 1938
- Initiated modern program with public/private partnership in Federal Crop Insurance Act of 1980
- Added CAT in Crop Insurance Reform Act of 1994
- Formed RMA and added revenue coverage in Federal Agricultural Improvement and Reform Act of 1996 (1996 Farm Bill)
- Adjusted CAT, reduced A&O in 1998 Agricultural Research Bill
- Added over \$8B to improve coverage, reduce farmer cost in Agricultural Risk Protection Act of 2000
- Cut about \$410M mostly by reducing A&O and adding quota share of 5% in the 2005 Farm Bill
- Cut about \$6B, mostly in A&O, eliminated PRP and gave RMA authority to renegotiate the SRA in the Food, Conservation and Energy Act of 2008 (2008 Farm Bill)
- Cut \$6 billion in the 2011 SRA
- Implemented significant rate reduction for corn and soybeans for spring 2012 – Industry cut

CROP INSURANCE INDUSTRY – DRIVER OF SUCCESS

- Expanded farmer participation
- Increased Coverage
- Developed revenue policy
- Improved delivery and marketing efficiency and effectiveness
- Improved claims processing and payment efficiency and effectiveness
- Improved farmer decision making
- Supported termination of the PRP program
- Supports independent agent delivery of program
- Utilizes private loss adjustment
- Works with lending community
- Supports individual coverage (APH) rather than area plans

GOVERNMENT INVOLVEMENT AND IMPACTS

- Cut funding over \$15 billion since 2005
- PRP Program
- High Dollar Claim Reviews
- CLU Reporting
- Combo Policy
- Over-Regulation
 - Training guidelines
 - Quality Control measures and reviews
 - Conflict of Interest
 - Agent Compensation Caps
 - Covenant Not to Sue
- Good Performance Refund Program (proposed)
- Lack of support/understanding for private business
- Lack of cost/benefit

2012 OUTLOOK

- Ag Economy
 - Farm gate balance sheets strongest in 30 years
 - More reasons to utilize sound risk management techniques
- Commodity Pricing
 - New Plateau
 - Dependent on Global economy
 - Greater volatility
- Global Trade
 - Demand growing, slower
 - Higher commodity prices driving additional world production

2012 OUTLOOK – CORN AND SOYBEAN RE-RATE

- Industry wide, 98-10 premium re-rated under the 2011 SRA with the new rate reductions for corn and soybeans nets a 2.4% decrease in rates
- This is projected to decrease AIP underwriting gains by 11% and decrease agent compensation by an estimated 1.2% industry wide
- Overall estimate a 1% decrease to rates in ND
- Additional re-rate changes to be implemented in the 2013 Reinsurance Year
 - Corn and Soybeans
 - Other Major Crops

2012 OUTLOOK - ACRSI

- Acreage/Crop Reporting Streamlining Initiative = ACRSI
- Streamlined reporting and information sharing between USDA agencies (RMA, FSA)
- Gives Farmers ability to report acreage themselves via a USDA, ACRSI website.
 - Rain and Hail believes that most farmers would prefer to report their acreage with the assistance of their crop insurance agent so that the agent can help make sure the acreage is reported as required by the policy.
- AIP involvement has been limited in program development

2012 OUTLOOK – 2012 FARM BILL IMPACTS

- Outlook for Crop Insurance Program Impacts from Farm Bill
 - Stabenow/ Lucas agreement contained no direct cuts to crop insurance; indirect impact with shallow loss program – Best likely outcome for crop insurance program but not likely to hold as farm bill moves through Committee/ Floor/ Conference process.
 - Sequestration impact unknown on crop insurance program – if it applies, sequestration means 7 to 9% cut to crop insurance.
 - Commodity title changes could have significant impact on crop insurance participation as commodity programs and crop insurance are blended together.

2012 OUTLOOK – POSSIBLE SEQUESTRATION IMPACT

| (\$ in billions) | FY 2012 – 2021 Total Baseline | Leaders Agreement | Sequestration at 8% |
|------------------|----------------------------------|-------------------|---------------------|
| Commodity | \$56.4 | \$43.4 | \$51.9 |
| Conservation | \$64.2 | \$58.2 | \$60.9 |
| Crop Insurance | \$80.2 | \$80.2 | \$73.8 |
| Nutrition | \$699.8 | \$695.8 | \$699.8 |
| Total | \$900.6 | \$877.6 | \$886.4 |

2012 OUTLOOK – COMMODITY TITLE IMPACT ON CROP INSURANCE

1. Higher target prices – no impact
2. Supplemental individual farm program revenue payment– possible significant impact depending on structure
3. Supplemental area farm program revenue payment – possible significant impact but less than individual farm based payment
4. Deductible coverage thru area yield plan (TCO), (STAX) – positive impact as it builds on existing program
5. Wrap individual coverage around an free area revenue plan – possible significant negative impact as it turns existing program upside down

LOOKING FORWARD

- Even though Congress, the Federal Government, private industry, agents and producers are committed to maintaining a strong crop insurance program, significant, negative changes from Federal legislation are possible in the next 6 to 18 months
- Crop Insurance Industry is committed to working with the Federal Government and producers to enhance and improve the program

THANK YOU

- Questions?
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