Is crop insurance the answer?

Nov. 8, 2011

2012 Farm Bill: Issues & Challenges conference
Mike Day
Fargo, N.D.
• RMA-approved insurance provider
• Founded: 1981.
• 1,800 team members: 1,200 of those are adjusters.
• Based in Anoka, Minn.: offices in South Dakota, California, Kansas and North Carolina.
• Largest Multi-Peril crop insurance provider: estimated $2.6 billion in 2011.
WHAT WE DO

- We write in all 50 states: One of only 2 of the 15 AIPs.
- 137 programs.
- Work with 2,500 insurance agencies and 5,000 insurance agents.
RCIS top crops:
% of gross premium for 2011 reinsurance year*

<table>
<thead>
<tr>
<th>Crop</th>
<th>%</th>
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<tbody>
<tr>
<td>Corn</td>
<td>35%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>21%</td>
</tr>
<tr>
<td>Wheat</td>
<td>19%</td>
</tr>
<tr>
<td>Cotton</td>
<td>10%</td>
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<tr>
<td>Grain Sorghum</td>
<td>2%</td>
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<tr>
<td>Sunflowers</td>
<td>&lt;1%</td>
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<tr>
<td>Apples</td>
<td>&lt;1%</td>
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<tr>
<td>Potatoes</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Pasture, Rangeland, Forage</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Sugar beets</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

Other examples (not ranked): canola, barley, sugar cane, citrus, wine grapes, cranberries, clams, almonds, livestock.

*RCIS data as of 11-4-2011
We partner with USDA, and specifically the Risk Management Agency, to deliver the crop insurance program. We must comply with RMA:

- Rules, rates, policies and directives.
- We must also submit a yearly Plan of Operation.

Let me show you what we do …
86 federal disaster declarations in 2011... so far. New one-year record.

- Drought (southern Plains)
- Hurricane (East Coast)
- Floods (Delta, Midwest, Dakotas)
- Hail (Central Plains)
- Excess moisture (West Coast, Upper Midwest)
Service: 90 Crisis Response Teams (3 to 30 adjusters per team) dispatched to hot spots in 15 states by RCIS in 2011.

18 for just North Dakota – 112 extra adjusters.
NATIONAL: 2010 vs. 2011

Losses paid by RCIS ($ billions)*

2010: $0.42
2011: $2.65

$1.16 paid
$1.49 projected

*As of Oct. 24, 2011
RCIS CLAIM NUMBERS: 2011

National*

150,772

34,751
14,672

TOTAL CLAIMS
2011: 200,195
2010: 183,000

*RCIS total of open, closed and deferred claims as of 10-28-2011
NORTH DAKOTA: 2010 vs. 2011

Losses paid by RCIS ($ millions)*

*As of Oct. 24, 2011
North Dakota*

23,818
16,470
1,407

MPCI
Prevented Planting
Hail

TOTAL CLAIMS
2011: 41,695
2010: 24,567

*RCIS total of open, closed and deferred claims as of 10-28-2011
MULTIPLE PERIL CROP INSURANCE
UNITED STATES ACRES TOTALS
1996 - 2010

Source: NCIS
PROTECTION FOR PRODUCERS

MULTIPLE PERIL CROP INSURANCE
UNITED STATES PREMIUM AND LOSS TOTALS
1996 - 2010

Source: NCIS
PROTECTION FOR PRODUCERS

MULTIPLE PERIL CROP INSURANCE
UNITED STATES LIABILITY
1996 - 2011
*2011 Data is preliminary

Source: NCIS
• Producers share program cost
• Producers take personal responsibility for risk management
• Producers get individual risk management solutions
• Producers receive indemnities in the timeliest way
• Program can be quickly adjusted and is self-correcting
• Payments are not in excess of losses
• Protection can be used as collateral for loans
• Program enables pre-harvest marketing
• Producers not subject to payment limits
• Producers benefit from the efficiencies of private sector delivery
• Insurance contributed to deficit reduction
Independent agents: advise and confirm

- Plans of coverage
- Crops
- Counties
- Practice
- Shares
- Levels
- Options
- Endorsements

- Loss procedures
- Applications
- Actual production history
- Acreage reports
- Notice of loss
- Sale of private products (named peril, crop/hail)
PRIVATE DELIVERY AT THE ‘FARM GATE’

Approved crop insurance providers: administer the program

• Issue coverage and establish liability.
• Receive and administer notice of loss.
• On-farm visit: verify cause of loss, explain loss procedure.
• On-farm visit: conduct appraisals, crop reviews
• On-farm visit: finalize claims.
• On-farm visit: High-dollar reviews
RCIS in 2011:

- 15 million miles driven.
- 200,195 loss notices.
- Loss payments projected at $2.65 billion.
- 305 crop-insurance training sessions nationwide.
- 5,000 agents delivering crop insurance.
Farm Bill 2008

• Premium payment and reimbursement shifts.
• 2.5 basis point reduction in Administrative and Operating (A&O) reimbursement.

SRA 2011

• Underwriting formula changes, reductions.
• A&O cap, compensation cap.
• Increased regulation/program complexity.
• Prioritization of new products (508H).
INCREASED REGULATION

$12 BILLION IN CUTS – SINCE 2008 FARM BILL
MAJOR RISKS TO PROVIDERS

- Weather and disasters
- Crop prices
- Regulatory change.

Example: Current SRA terms do not work at 2006 prices with a normal underwriting year. There’s no down-side cap … a risk to delivery of the program
• Great American success story for 30 years.
• Public/private partnership that WORKS.
• The risk-management cornerstone of American agriculture.
• Results-orientated: competition among providers based on technology, service and people.

• Commitment to agriculture to deliver risk-management assistance that’s timely and accurate when it’s needed most by producers, lenders, suppliers and rural communities.
• Work with RMA/USDA to simplify producer-reporting requirements.

• Work with RMA to develop new products and improve existing products.

• Work with RMA to streamline rules, regs and documentation.

• Focus on technology: improve service to the farmer.

• Precision farming: field-to-company pass-through of data.

• Radar-based remote sensing – estimate and monitor yields and acreage by real-time satellite.
Online transfer, storage and presentation of producer documents and data.

Focus on needs of the producers, commodity groups, USDA and Congressional ag committees to determine proper course to address agriculture’s needs from risk-management view.
• Senator Kent Conrad
• Jim Miller, senior aide
• Bill Murphy, RMA administrator

We are here to commit our experience, people, technology and resources for the continued success of the program.
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