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Prospects for Crop Insurance in the 2012 Farm Bill

- Lead counsel on 2000 Agricultural Risk Protection Act
- Lead counsel on Commodity Title of the 2002 Farm Bill
- 13 years as staff on Capitol Hill working in Senate and House
- 7 years in advocacy for farm and rural policy at Combest Sell
- Admitted to Federal and Minnesota Bars

Combest Sell & Associates



Larry Combest

- Chaired House Intelligence Committee
- Chaired House Agriculture Committee
- Principal author of the 2000 ARPA
- Principal author of the 2002 Farm Bill
- Nearly 20 years as Congressman from West Texas



Tom Sell

- Served as Deputy Staff Director of the House Agriculture Committee
- A lead House negotiator during 2000 ARPA and 2002 Farm Bill
- USDA Director of Intergovernmental Affairs
- Admitted to Texas Bar



CIPA

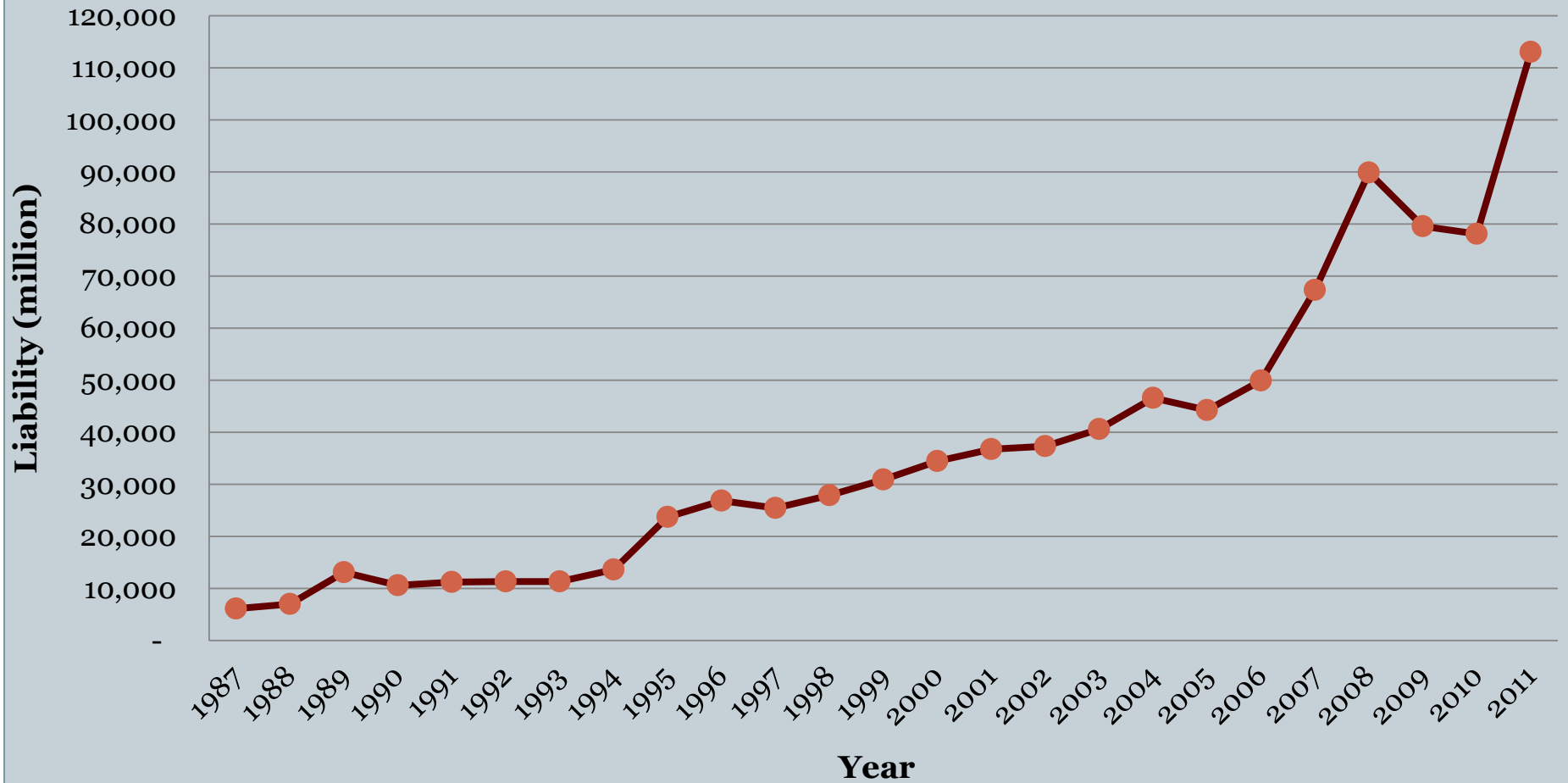
- Privileged to work for the Crop Insurance Professionals Association
- An organization which is solely dedicated to representing the views of crop insurance agents in Washington
- Membership from across the country
- Members who demonstrate great integrity and leadership
- Visit our website for more information at www.cipatoday.org



Crop Insurance Timeline

- **1938:** Federal Crop Insurance Act enacted into law
- **1940s:** Crop insurance discontinued, then restored, then pared back
- **1953-1980:** Crop insurance hobbles along, delivered by government employees
- **1980:** Crop insurance is reformed, marking the birth of the public/private partnership
- **1994:** Crop insurance is reformed again, accentuating crop insurance over ad hoc disaster
- **1996/1997:** Introduction of revenue policies
- **1998:** Conversion of A&O from discretionary to mandatory funding
- **2000:** Passage of Agricultural Risk Protection Act, putting crop insurance on its biggest upward trajectory

Growth in Crop Insurance Liability



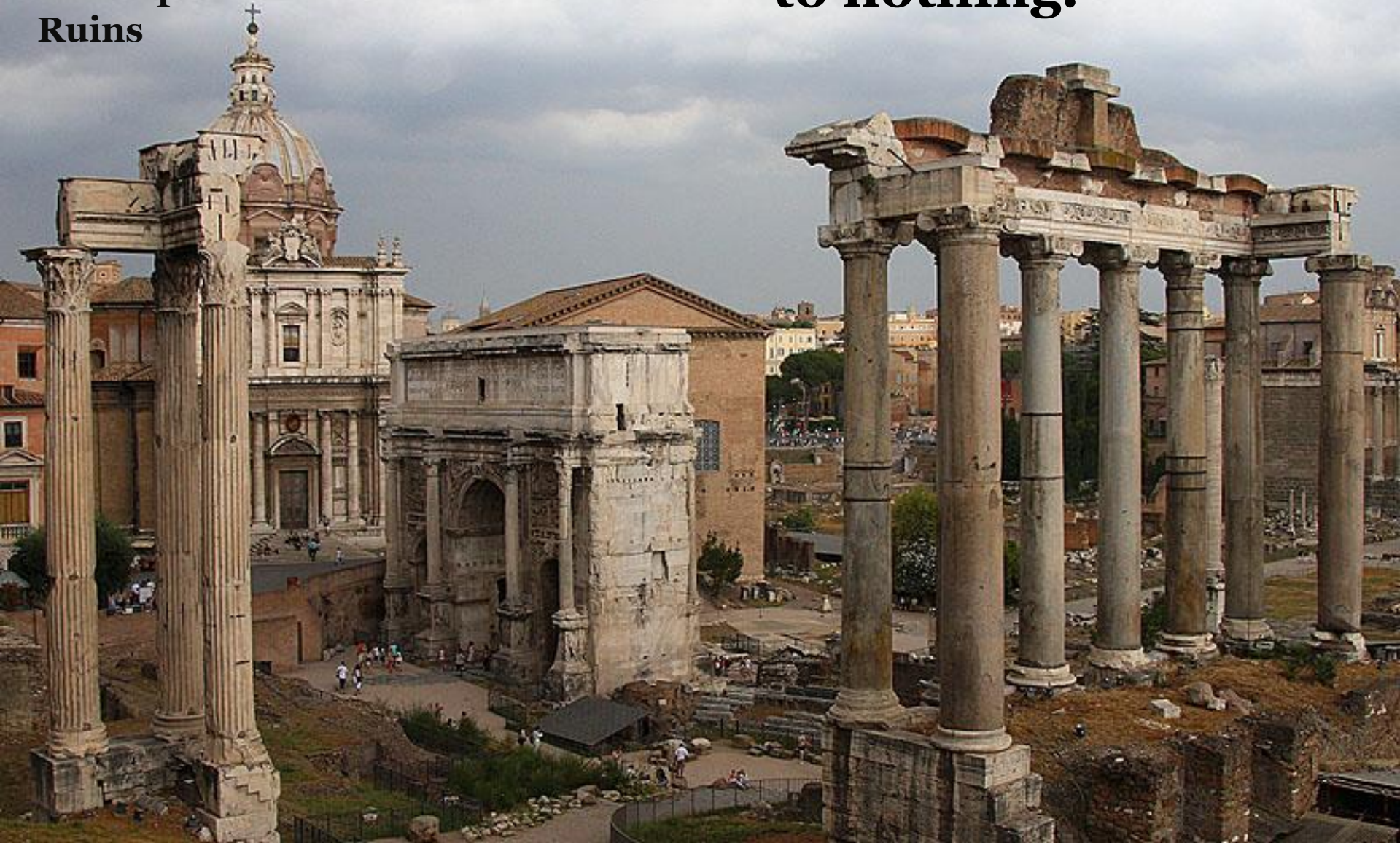
Crop Insurance Timeline

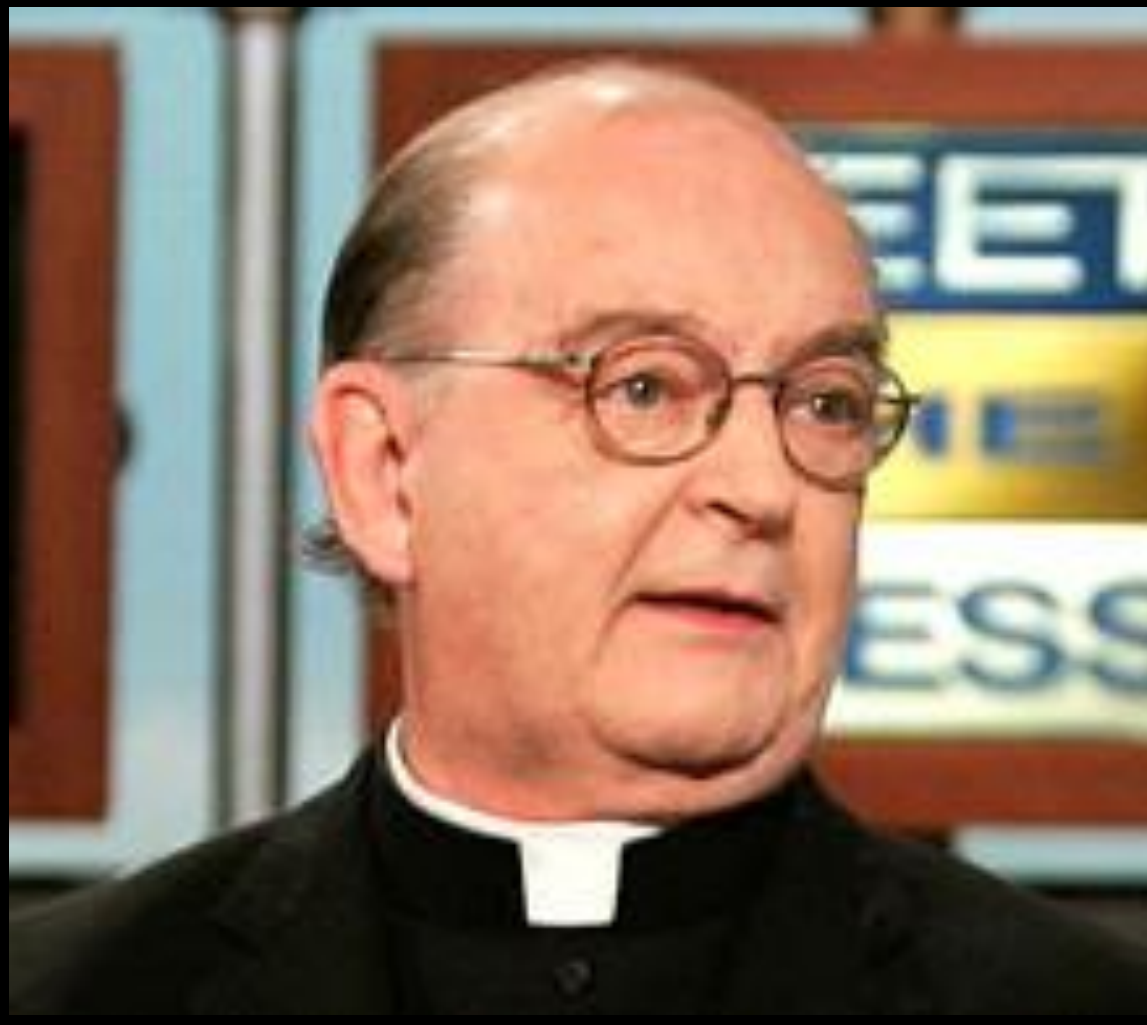
- **2004:** SRA cuts \$36M under Bush Administration
- **2005:** PRP introduced
- **2008:** Farm Bill cuts \$6B from crop insurance, authorizes renegotiation of SRA, but rejects ACRE encroachment on crop insurance and repealed PRP
- **2010:** SRA cuts \$8B under Obama Administration, imposing unauthorized A&O and compensation caps, interfering with private contracts, interfering with legal rights, upending history of compensating P&C agents
- **2011:** Attempted Farm Bill introduces replacement revenue program for ACRE; USDA announces major re-rating
- **2012/2013:** Farm Bill debate continues; re-rating debate continues; ongoing budget issues, including sequestration

**“In nihil ab nihilo
quam cito recidimus.”**

**-Inscription found in Roman
Ruins**

**“How quickly we fall
back from nothing
to nothing.”**





"The temptation is to unpack, settle down in the present, and forget about the pilgrimage."

- Fr. Richard John Neuhaus

Cuts Since ARPA

2004 SRA

(\$36 million)

2008 Farm Bill

(\$6 billion)

2010 SRA

(\$8 billion)

2011 Rerating

(???)

2012 vs. 2000



A&O Language in Statute

1. FEDERAL CROP INSURANCE ACT

[As Amended Through P.L. 112-55, Effective November 18, 2011]

TABLE OF CONTENTS

Subtitle A—Federal Crop Insurance Act

- Sec. 501. Short title and application of other laws.
- Sec. 502. Purpose and definitions.
- Sec. 503. Creation of Federal Crop Insurance Corporation.
- Sec. 504. Capital stock.
- Sec. 505. Management of Corporation.
- Sec. 506. General powers.
- Sec. 507. Personnel.
- Sec. 508. Crop insurance.
- Sec. 508A. Double insurance and prevented loss.
- Sec. 509. Indemnities exempt from levy.
- Sec. 510. Deposit of funds.
- Sec. 511. Tax exemption.
- Sec. 512. Fiscal agency of government.
- Sec. 513. Accounting by Corporation.
- Sec. 514. Crimes and offenses.
- Sec. 515. Program compliance and integrity.
- Sec. 516. Funding.
- Sec. 517. Separability.
- Sec. 518. Agricultural commodity.
- Sec. 520. Producer eligibility.
- Sec. 521. Ineligibility for catastrophic risk.
- Sec. 522. Research and development.
- Sec. 523. Pilot programs.
- Sec. 524. Education and risk management.

Subtitle B—Supplemental Agricultural Act

- Sec. 531. Supplemental agricultural as

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the rate established by the Board to reimburse approved insurance providers and agents for the administrative and operating costs of the providers and agents shall not exceed—

(i) for the 1998 reinsurance year, 27 percent of the premium used to define loss ratio; and

(ii) for each of the 1999 and subsequent reinsurance years, 24.5 percent of the premium used to define loss ratio.

(E) REIMBURSEMENT RATE REDUCTION.—In the case of a policy of additional coverage that received a rate of reimbursement for administrative and operating costs for the 2008 reinsurance year, for each of the 2009 and subsequent reinsurance years, the reimbursement rate for administrative and operating costs shall be 2.3 percentage points below the rates in effect as of the date of enactment of the Food, Conservation, and Energy Act of 2008 for all crop insurance policies used to define loss ratio, except that only ½ of the reduction shall apply in a reinsurance year to the total premium written in a State in which the State loss ratio is greater than 1.2.

Language RMA Relied On

1. FEDERAL CROP INSURANCE ACT

[As Amended Through P.L. 112-55, Effective November 18, 2011]

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- Sec. 514. Crimes and offenses.
- Sec. 515. Program compliance and integrity.
- Sec. 516. Funding.
- Sec. 517. Separability.
- Sec. 518. Agricultural commodity.
- Sec. 520. Producer eligibility.
- Sec. 521. Ineligibility for catastrophic risk and
- Sec. 522. Research and development.
- Sec. 523. Pilot programs.
- Sec. 524. Education and risk management assistance.

Subtitle B—Supplemental Agricultural

- Sec. 531. Supplemental agricultural assistance

(E) 2011 REINSURANCE YEAR.—

(i) **IN GENERAL.**—As part of the Standard Reinsurance Agreement renegotiation authorized under subparagraph (A)(i), the Corporation shall consider alternative methods to determine reimbursement rates for administrative and operating costs.

(ii) **ALTERNATIVE METHODS.**—Alternatives considered under clause (i) shall include—

(I) methods that—

(aa) are graduated and base reimbursement rates in a State on changes in premiums in that State;

(bb) are graduated and base reimbursement rates in a State on the loss ratio for crop insurance for that State; and

(cc) are graduated and base reimbursement rates on individual policies on the level of total premium for each policy; and

(II) any other method that takes into account current financial conditions of the program and ensures continued availability of the program to producers on a nationwide basis.

A&O Cuts by State

State	2008 A&O	2009 A&O: Post-Farm Bill	2010 A&O: Post-Farm Bill	2011 A&O Estimates	Change from 2010	Change from 2009	Change from 2008
FL	29,372,686	20,224,654	14,452,590	12,727,455	-11.94%	-37.07%	-56.67%
IA	185,883,988	127,350,688	109,804,953	93,719,823	-14.65%	-26.41%	-49.58%
MN	174,805,266	112,850,459	99,489,117	90,706,189	-8.83%	-19.62%	-48.11%
ND	226,029,389	139,371,552	115,859,784	119,775,130	3.38%	-14.06%	-47.01%
NE	141,776,549	106,587,356	79,579,091	80,174,537	0.75%	-24.78%	-43.45%
SD	143,667,890	104,701,314	88,021,883	85,582,520	-2.77%	-18.26%	-40.43%

SRA Language

STANDARD REINSURANCE AGREEMENT

between the
FEDERAL CROP INSURANCE

and the
(Insurance Company Name) (H

(City and St

- (B) Except as provided in subparagraph (C), in any State in which the Company is doing business, the Company, its MGA, or any affiliate shall not pay total compensation in excess of 80 percent of the total amount of A&O subsidy and CAT LAE calculated in accordance with subsection (a)(2) excluding any amounts paid under subsection (a)(2)(I), for such State. The calculation of the 80 percent is based on the amount paid by FCIC on the first annual settlement report for the reinsurance year.

This Agreement establishes the terms and conditions under which the Federal Crop Insurance Corporation (FCIC), supervised by the Risk Management Agency (RMA) as authorized in section 226A of the Federal Agriculture Improvement and Reform Act of 1996, will provide subsidy and reinsurance on eligible crop insurance contracts under the authority of the Act. This Agreement is authorized by the Act and regulations (regulations).

This is a cooperative financial assistance agreement between the Company and the FCIC. In this Agreement, use of the plural form of a word includes the plural unless the context in the headings in this Agreement are descriptive only of the Company.

This Agreement becomes effective upon its execution and approval by the Board of Operations by FCIC for the applicable reinsurance year.

- (ii) For any State in which the Company is doing business, the total amount of all compensation paid under this subparagraph and subparagraph (B) does not exceed 100 percent of the total amount calculated for A&O subsidy and CAT LAE in accordance with subsection (a)(2), excluding any amounts paid under subsection (a)(2)(I), for such State. The calculation of the 100 percent is based on the amount paid by FCIC on the first annual settlement report for the reinsurance year; and

Covenant Not to Sue

STANDARD REINSURANCE AGREEMENT

between the
FEDERAL CROP INSURANCE CORPORATION

and the

(Insurance Company Name) (Hereafter "Company")

(City and State)

This Agreement establishes the terms and conditions under which the Company shall reinsure eligible crop insurance contracts sold by the Federal Crop Insurance Corporation (FCIC), supervised by the Risk Management Agency, pursuant to section 226A of the Federal Agriculture Improvement and Reform Act of 1985, and reinsurance on eligible crop insurance contracts sold by the Company is authorized by the Act and regulations of FCIC pursuant to the Act and regulations of FCIC (collectively, "FCIC regulations").

This is a cooperative financial assistance agreement between the Company and FCIC for eligible crop insurance contracts under the authority of the Act. For purposes of this Agreement, use of the plural form of a word includes the singular and vice versa. The singular form of a word includes the plural unless the context indicates otherwise. The headings in this Agreement are descriptive only and have no legal effect. This Agreement shall be binding on the Company and FCIC.

This Agreement becomes effective upon its execution and the approval of the Board of Operations by FCIC for the applicable reinsurance year.

- (K) The Company, for itself and any persons whose rights are derivative of the Company (including, but not limited to, assigns, successors, and representatives), hereby covenants and agrees that it will not institute or file any judicial or administrative proceeding, or cause the instituting or filing (directly or indirectly) of any judicial or administrative proceeding, or assist any third party that has instituted or filed any judicial or administrative proceeding, against FCIC, RMA, the United States Department of Agriculture, or any officer, agent, or director thereof (collectively, "FCIC"), challenging the legality of the terms and conditions of section III(a). Nothing in the forgoing precludes the Company from responding to a court order. This covenant and agreement may be pleaded by FCIC as a bar or release in the event any such judicial or administrative proceeding is instituted or filed. The Company and FCIC, prior to execution of this Agreement, had disputed the provisions of section III(a). That dispute now has been compromised in a manner mutually acceptable to the Company and FCIC, and, in consideration of that compromise, the Company agrees and covenants as set forth above. The Company shall require its agents to acknowledge in writing that the agents agree to and are bound by the same covenant not to sue contained in this paragraph. Such acknowledgement may be contained in an agent or other agreement.



Members Sound Off on Crop Insurance

“We have heard again and again from producers that crop insurance is the best risk management tool available.”

-Congressman Frank Lucas (R-OK), Chairman of the House Agriculture Committee

“Crop insurance is going to be the mainstay, the foundation.”

-Senator Debbie Stabenow (D-MI), Chairwoman of the Senate Agriculture Committee

“If there is anything we want to preserve and strengthen, it is crop insurance. “

- Senator Pat Roberts (R-KS), Ranking Member of the Senate Agriculture Committee

“Farmers should be protected against the unpredictable, and often volatile, nature of farming by a mature risk management tool like crop insurance and supplemented by loan guarantees.”

-Senator Tom Coburn (R-OK)

Farmer Praise

“As a banker and a farmer, I can tell you that federal crop insurance is the only thing that makes it possible for us to loan money to small farmers.”

-Alan Rosendahl, a Senior Vice President at Iowa State Bank

“Crop insurance is a key part of my farming operation because my agent and I evaluate in detail, prior to planting, the optimal coverage for what I’m planting. Once I’ve made that evaluation, crop insurance becomes the underpinning for financing from the bank.”

-Quentin Bowen, Nebraska farmer

“Because of the many challenges, all young farmers depend on components contained in the 2008 Farm Bill—most notably crop insurance—to provide lenders with the confidence and collateral they need to extend loans.”

-Matt Huie, Texas farmer

“Federal crop insurance gives us a big safety net...[the] farming economy is pretty good, but the risks are actually greater than ever.”

-Tracy Jones, farmer

Farm Groups

“ASA [Soybeans] will strongly oppose any proposal to further reduce crop insurance funding.”

“In the diverse basket of federal farm safety net programs, crop insurance is one of the most reliable and imperative.”

-Bing Von Bergen, on behalf of the National Association of Wheat Growers

“...without crop insurance, financing would be practically impossible to get. It's critical that crop insurance work with FSA programs--not in conflict.”

-Steve Verett, executive vice president of the Plains Cotton Growers Association and treasurer of Southwest Council of Agribusiness



**“The highest
priority for
NCGA is
securing a
strong crop
insurance
program.”**

-National Corn Growers
Association President
Garry Niemeyer

Ranking Member Peterson in August 2011

“I am against making any cuts in crop insurance ... any changes in crop insurance.”

“Peterson defended those cuts, but said he believes it is too early to evaluate the impact of those changes. ‘We need another year to know’ what impact those changes have had, Peterson said.”

“‘Crop insurance for me is the bottom line,’ Peterson said, adding that he fears that at some point it may be the only farm program left.”

The Hagstrom Report

Agriculture News As It Happens



Peterson will fight crop insurance changes in 2012 farm bill

By JERRY HAGSTROM

BRAINERD, Minn. — House Agriculture Committee ranking member Collin Peterson, D-Minn., said here today that there should be no changes to the crop insurance program in

cuts in crop insurance ... any changes in
n told the Minnesota Ag Leadership
nsored by Minnesota Corn, a growers’

2008 farm bill, Congress cut back on the
program and authorized the Agriculture
ment Agency to renegotiate the agreement
vern the program, which had resulted in



House Agriculture
Committee ranking
member, D-Minn.

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se changes. “We need another year to
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urance has increased along with the
il of between \$8 and \$9 billion this year,
ard subsidizing about 55 percent of the cost of producers’
have led some farm lobbyists to note that crop insurance
farm program and may become a target for budget

**\$2 Billion from
underwriting gains**

**President's
Revised Proposed
Budget:
\$8.3 Billion
in Total Cuts**

**\$3.7 Billion from A&O
by lowering from \$1.2
Billion to \$900 Million**

**Rerating CAT for
\$600 Million**

**Reducing premium subsidy by 2
points on all coverage above 50%**



**FISCAL YEAR 2012
BUDGET
FOR THE U.S. GOVERNMENT**

Rerating

DTN - November 30, 2011

By Chris Clayton

In fact, an Oct. 26 letter to Secretary Vilsack on the premium change did not just come from Lucas. Ranking member Collin Peterson, D-Minn., signed on, as did Rep. Mike Conaway, R-Texas, and Rep. Leonard Boswell, D-Iowa, who also are chair and ranking member of the subcommittee that oversee crop insurance. The letter to Vilsack states, "We are very concerned about the lack of transparency in the development and evaluation of the new methodology, and we urge you to open the process to public scrutiny. The new rating system being developed by a public contractor has not been made public and the external review process being used by RMA is limited and confidential."

The lawmakers raised concerns over whether the RMA change would be actuarially sound.

~~"The federal crop insurance program is being looked to more and more as the cornerstone of risk management for production agriculture for the future, not only by farmers but by Congress and the administration as well. As a result, it is paramount that we take actions that are based on the best science available, improve the effectiveness of the program, and are not detrimental to the long-term protection and service that producers receive."~~

2012 Farm Bill Challenges

OMB

**“Love is sometimes blind,
but contempt is always
blind.”**

-Fr. Richard John Neuhaus



2012 Farm Bill Challenges

Other farm policy opponents

"It's an inefficient delivery system," said Tom Cook, deputy director of GAO's Natural Resources and Environment team. "It's a system that a large percentage of the federal expenditures for this program end up going to just the delivery of the program, to the middle men: insurance companies and insurance agents"

"Babcock has developed crop insurance policies and worked as a consultant for the USDA Risk Management Agency, the federal agency that oversees crop insurance. Recently, Babcock, in accordance with non-profit Environmental Working Group, released a report called "The Revenue Insurance Boondoggle: Taxpayer-paid windfall for industry.""

2012 Farm Bill Challenges

Discontent of...

...the well-served

"Tolman noted that corn growers think their premiums are too high for their level of risk."

...the underserved

"Lawmakers heard from farmers about the value of crop insurance, but that doesn't work well for all commodities, including rice and peanuts." So that's what complicates the commodity title," Stabenow said. "It makes it more difficult as we look at different regions of the country."

2012 Farm Bill Challenges

- Lack of industry unity
- Lack of farm group unity
- Interaction with farm programs
- Lack of involvement
- Increased expectations put on crop insurance

2012 Farm Bill Challenges



CIPA Priorities

- No more crop insurance cuts in the Farm Bill
- Ending SRA raids on crop insurance funding
- Agent compensation
- Correction of errors
- Large claim reviews
- FSA information sharing
- Addressing APH
- Total Coverage Option (TCO)
- Urging new policies to meet underserved
- Enterprise Units (EU), including by practice and rating

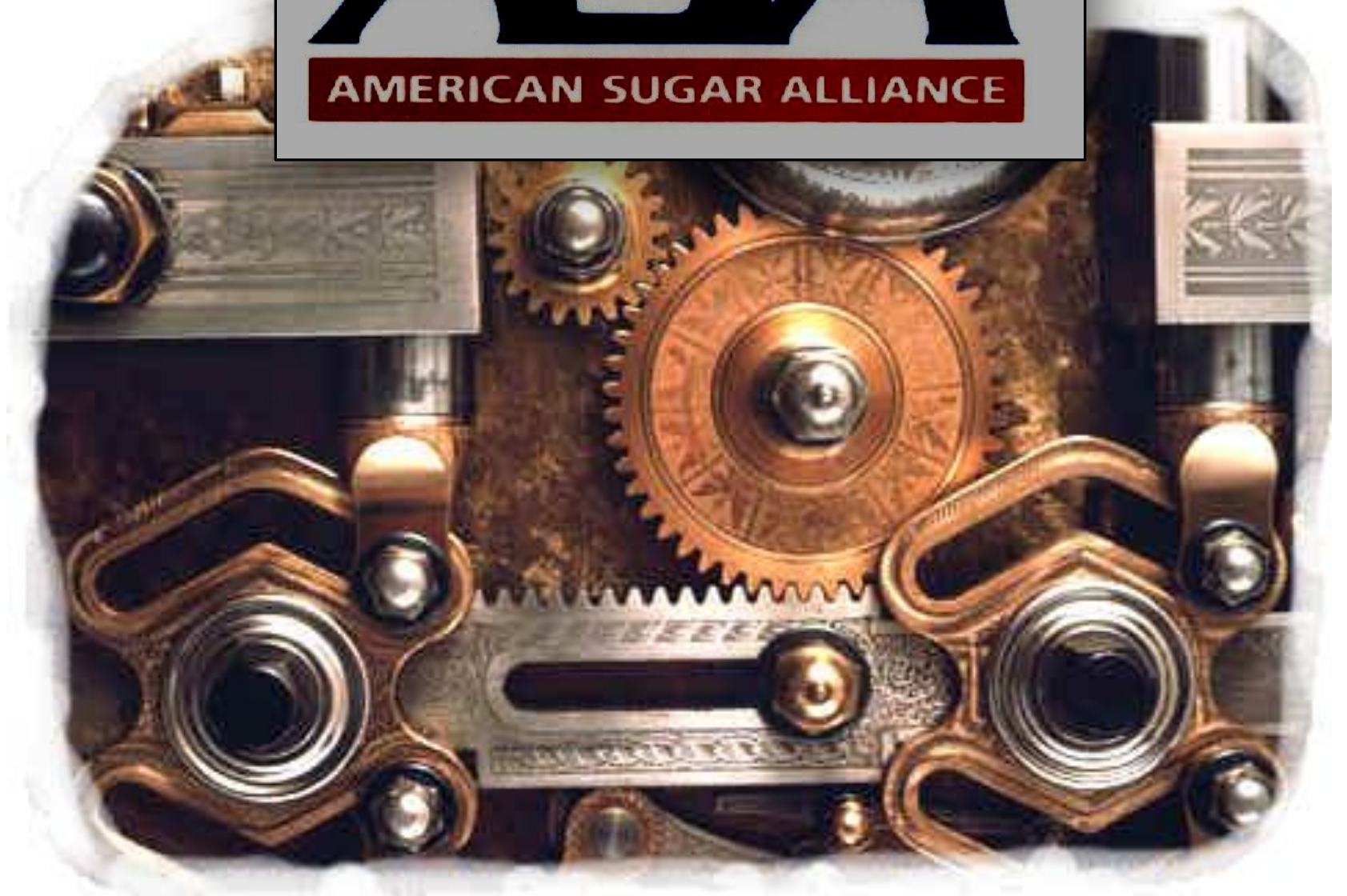
What you can do? Get involved...



- (1) Senators and Congressman should know who you are and what you like and care about...should see you as a reliable resource
- (2) Industry from company to customer should know you want unity in crop insurance
- (3) Don't tolerate bad press, especially if it is friendly fire: complain
- (4) Join CIPA
- (5) You can help tackle giant issues

ASFA

AMERICAN SUGAR ALLIANCE



“All great works are effected, not by a multitude, but by the deep-seated resolution of a few...for alas! popular favour is hardly to be expected for the cause of Truth.”

-Blessed John
Henry Newman

