United States Department of Agriculture

Risk Management Agency

Crop Insurance Program Update

RMA Administrator Bill Murphy

North Dakota Crop Insurance Conference

Fargo, ND

January 16, 2012

Business Summary

	2010	2011 (so far)
Liability (Value of Insured Crops)	$78 Billion	$113 Billion
Acres Insured	256 Million	264 Million
Total Premium	$7.6 Billion	$11.9
Premium Subsidy	$4.7 Billion	$7.4
Indemnity (Claims Paid So Far)	$4.2 Billion	8.6 Billion
Loss Ratio	.56	.72

As of 01-09-12

Business Summary for North Dakota Corn

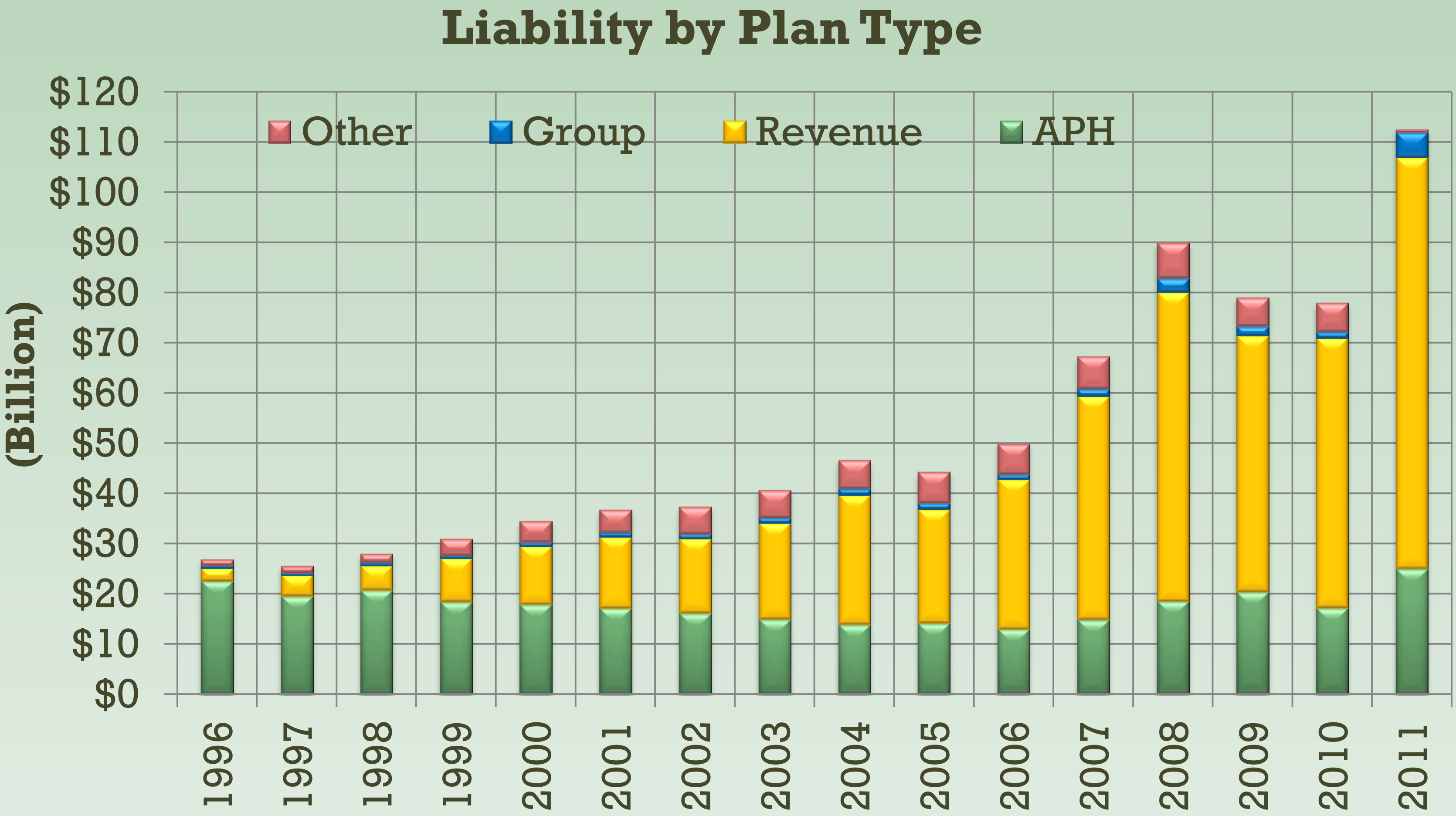
	ND 2010	ND 2011	Corn Nat'l 2010	Corn Nat'l 2011	Corn ND 2010	Corn ND 2011
Liability	$4 Billion	$6 Billion	$31.7 Billion	$51.2 Billion	$724 Million	$1.3 Billion
Acres Insured	23.6 Million	23 Million	73.6 Million	77.6 Million	2.4 Million	2.7 Million
Total Premium	$665 Million	$1 Billion	$2.9 Billion	$4.7 Billion	$133 Million	$224 Million
Indemnities Paid So Far	$442.3 Million	$1.5 Billion	$1.7 Billion	$2.5 Billion	$139 Million	$271 Million
Loss Ratio So Far	.67	1.39	.60	.52	.74	1.19

As of 01-09-12

National Crop Ranking

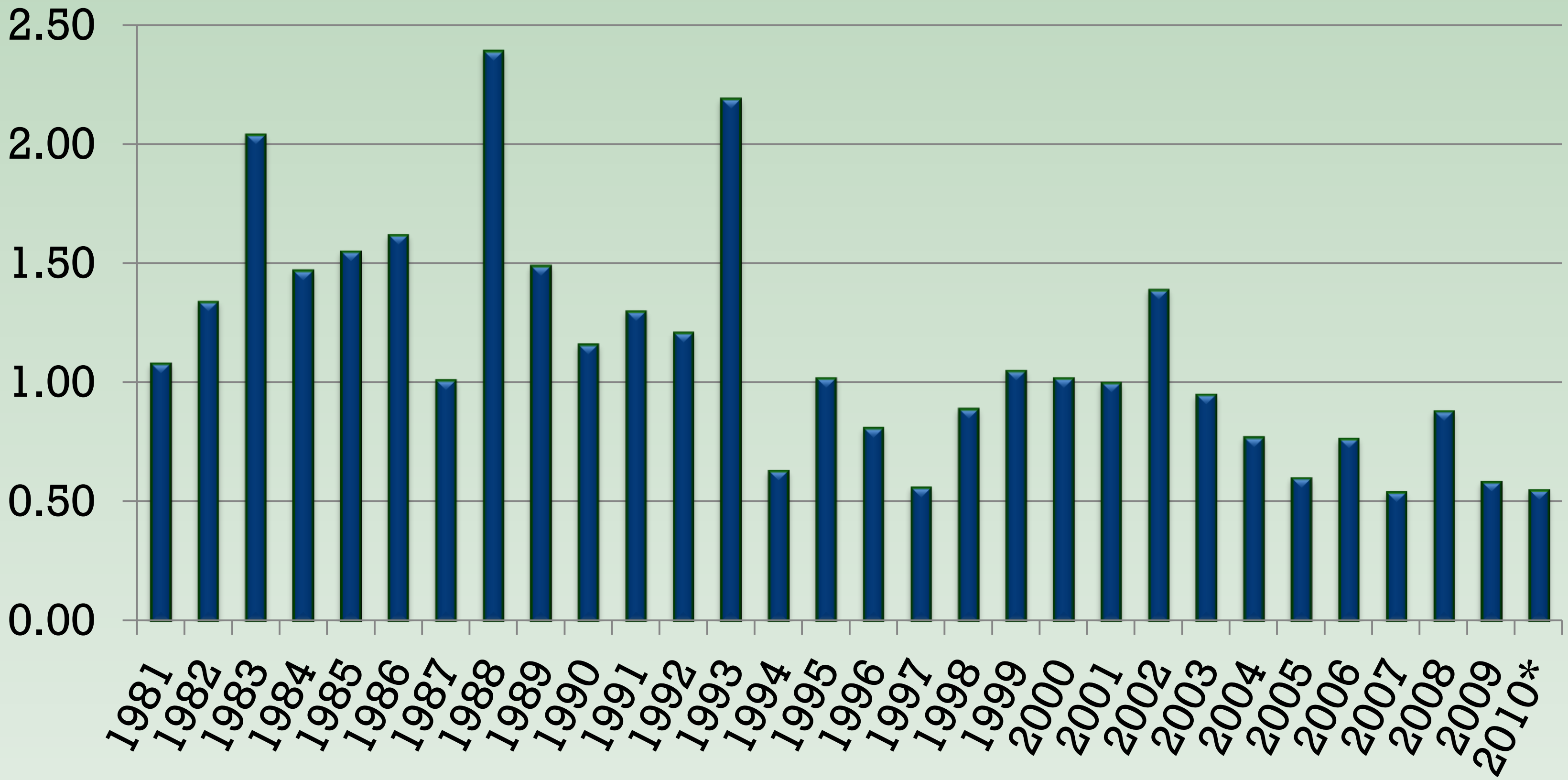
2011 Crop Ranking by Value		
Crop	Crop Liability	Percent of Total
Corn	$51.5 Billion	45.5%
Soybeans	$25.6 Billion	22.5%
Wheat	$10.3 Billion	9.1%
Cotton	$6.7 Billion	5.9%
Nursery (FG&C)	$2.3 Billion	2.0%
Citrus	$2 Billion	1.8%
Rice	$1.2 Billion	1.1%
Potatoes	$1.0 Billion	0.9%
All Others	$12.7 Billion	11.2%
Total	$113.3 Billion	100.0%

Program Growth



As of 11-22-11

FCIC Loss Experience 1981-2010



Program Improvements in the Past Two Years

- The Standard Reinsurance Agreement (SRA)
- Rating Methodology Study
- Whole Farm and Enterprise Units
- APH Review
- COMBO
- CIMS/ACRSI (ARD)
- New Area Risk Protection Insurance policy
- New products: Pistachio Cottonseed Price Endorsement, Fresh Market Beans, Louisiana Sweet Potato

New Camelina Insurance Plan

- Camelina is an oilseed that can be established on marginal land as a rotation crop for wheat.
- Actual Production History Insurance Plan
  - ✓ Only spring-planted camelina grown under contract with a processor is eligible
  - ✓ The Contract
  - ✓ Only a single basic unit will be offered
  - ✓ Neither written agreements nor prevented planting will be available
  - ✓ Coverage will be offered at the catastrophic level to 65%
  - ✓ Insurable causes of loss.

New Product Development

Concept Proposals

- 23 Concept Proposals submitted to FCIC Board
- 18 Approved for expert review
- 12 Funded
- 7 Resubmitted as 508(h)

RMA's Pilot Programs

- Twenty-Two Pilot Programs Operating
- Two Approved for Conversion to Regulatory, including Forage Seed

New Product Development

Privately Submitted 508(h) Programs

- Fifteen 508(h) Programs Operating
- Three 508(h) products implemented CY11
  - ✓ Cottonseed Price Endorsement
  - ✓ Fresh Market Beans
  - ✓ Louisiana Sweet Potato
  - ✓ Pistachios

Common Acreage Reporting Dates

- In the past year, the joint RMA-FSA team looked at RMA's 54 ARDs for 122 crops, and FSA's 17 ARDs for 273 crops, and consolidated them into the 15 common ARDs.
- RMA and FSA will implement the July 15 and August 15 common ARDs for certain commodities during 2012. The new common July ARD combines 15, and the August date combines 10, of the previous acreage reporting dates.
- The remaining common ARDs will be implemented during the 2013 crop/program year.

Premium Billing

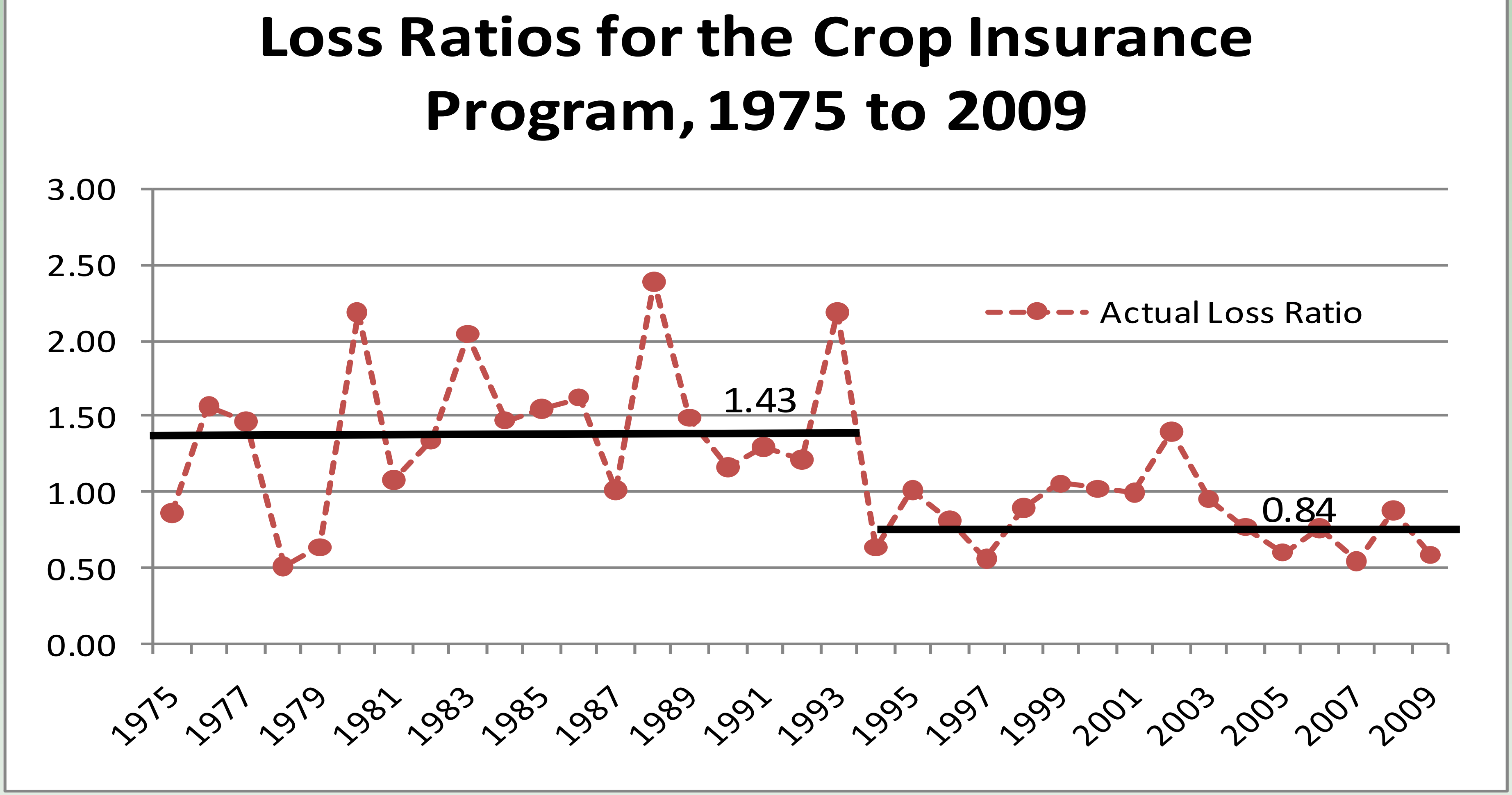
- The 2008 Farm Bill mandated premium billing dates that occur after August 15 be moved to August 15 beginning with crops falling under the 2012 reinsurance year.
  - ✓ Not all billing dates occurring after August 15th could be moved to the earlier date due to the normal growing season of the crop
  - ✓ To the extent practical RMA moved those billing dates to August 15th or some earlier date, where there was sufficient time (e.g., 30 days) after acreage is normally processed for a crop.
  - ✓ More than 20,750 county/crop programs were impacted by the change.
- Additionally, RMA added a special provisions statement to continue to provide a minimum of 30 days from the billing date to when interest would attach on unpaid premium.
  - ✓ The policy states that interest will start to accrue on the first day of the month following the premium billing date specified in the special provisions.
  - ✓ The new special provisions statement modifies this to the first day of the month following the premium billing date as long as 30 days have passed.

Rating Methodology

Rating Methodology Review

- RMA contracted for a rate study by Sumaria Systems, Inc.
  - ✓ Study peer reviewed
  - ✓ RMA accepted in general the study recommendations, but with limitations
  - ✓ RMA plans to conduct additional analysis before making further adjustments
  - ✓ Many corn and soybean producers will see decreased rates, but not all
  - ✓ Varies by state, but overall a rate decrease around 7% for corn and 9% for soybeans
- Additional crops to follow include wheat, cotton, rice, sorghum, potatoes and apples
- Ultimate goal is to establish the best rate for the risk faced by producers so each pays their fair share.

How Has the Loss Ratio Changed Since the 1990s?



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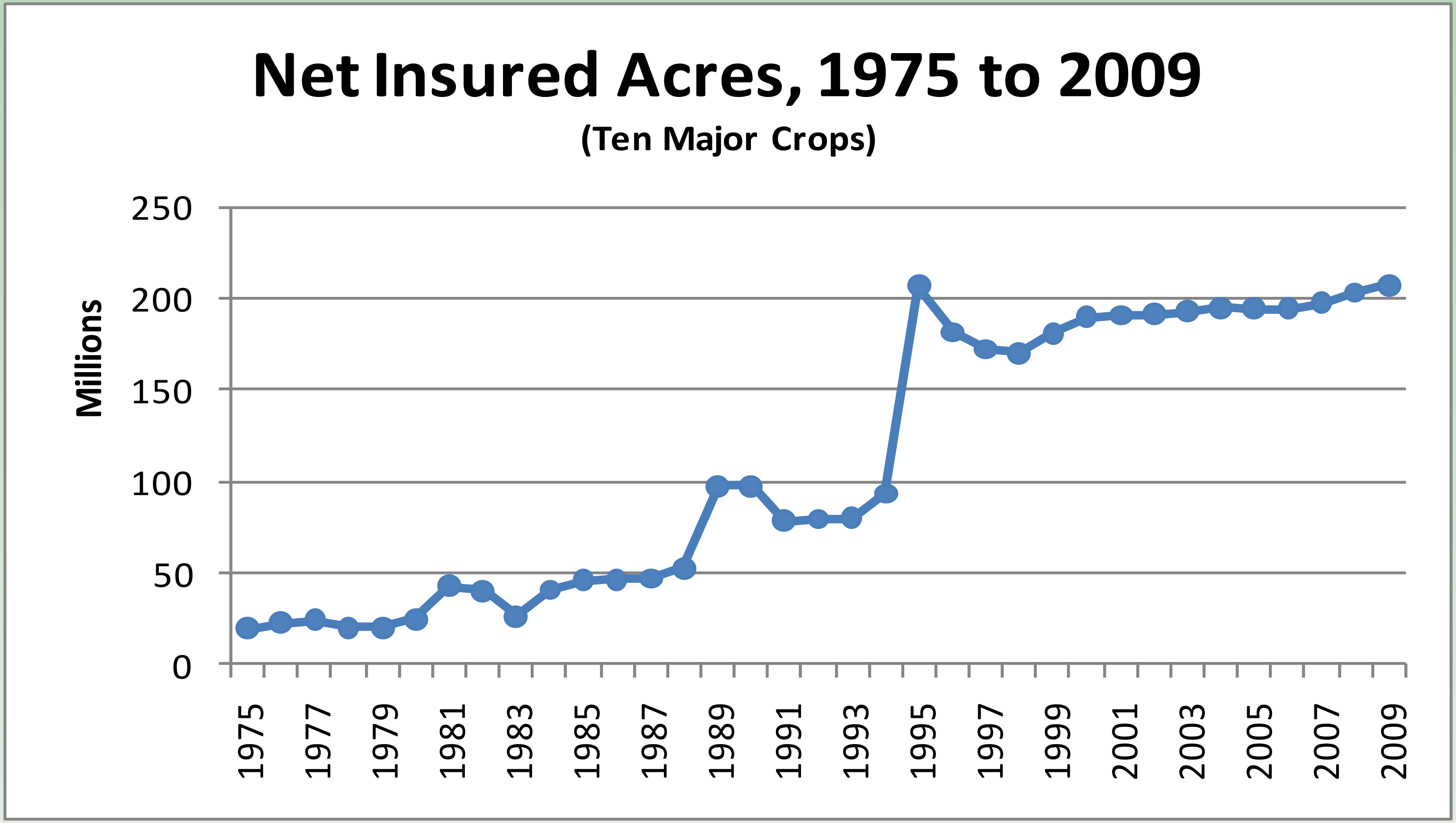


APH Review

- RMA conducted an internal evaluation of APH program
- Fundamental basis of APH program is sound and does not require significant overhaul but
  - ✓ Does not reflect advances and capabilities in data, technology, etc.
  - ✓ Opportunity to reduce administrative burden, provide more appropriate insurance guarantees, and improve actuarial efficiency and program integrity

APH Review

- APH - Producers report production annually
  - ✓ Including area-based plans
  - ✓ Production reporting tied to current year's policy, not next year's policy APH database
  - ✓ Data contained in permanent databases identified by land and by producer - used for establishing guarantees, etc.
  - ✓ Historical data would not be 'lost'
  - ✓ Yields tied to the common land unit

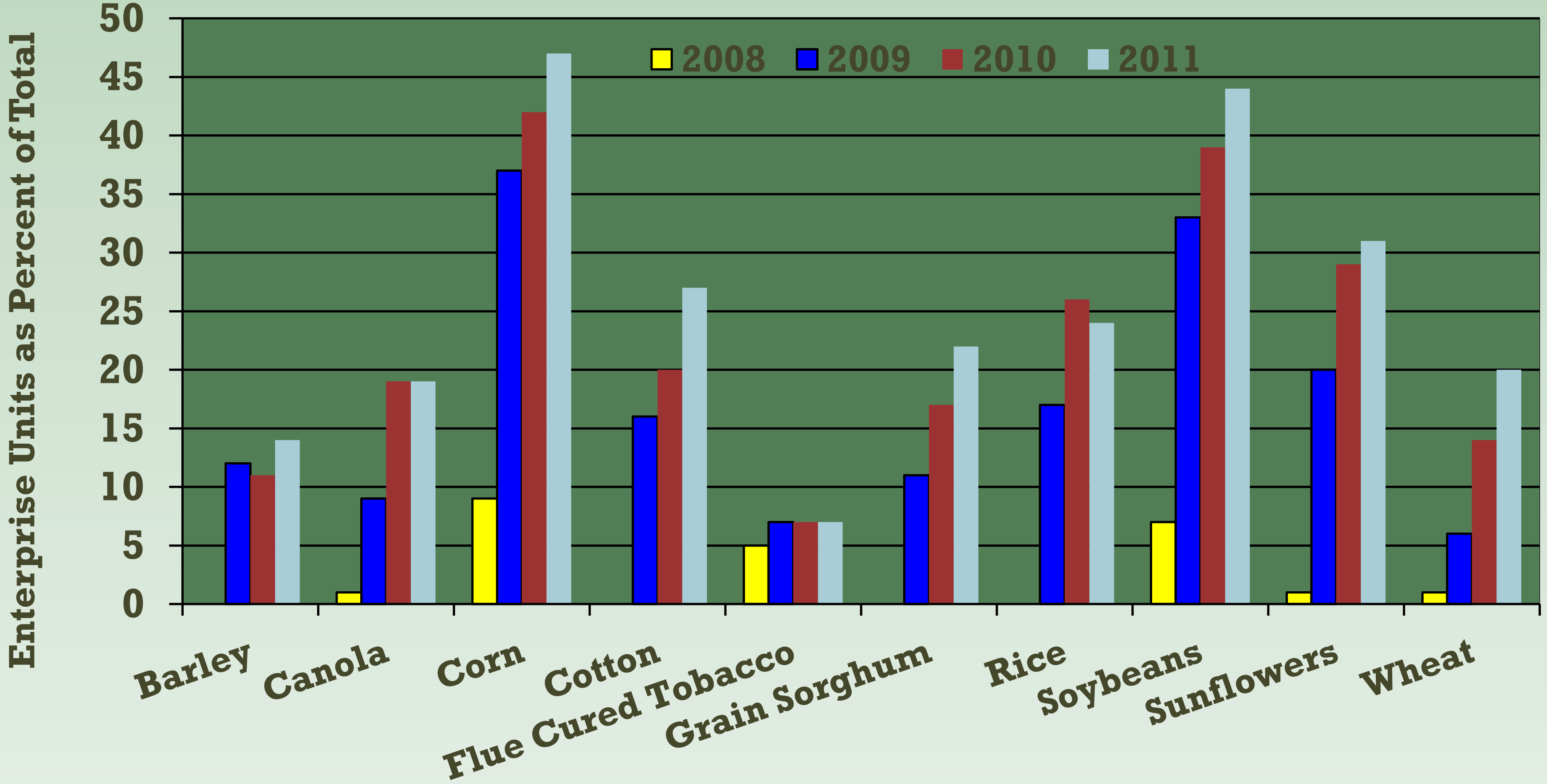
Enterprise Units

Whole Farm & Enterprise Unit Pilot

- Authorized by 08 Farm Bill
- Gives farmers same dollar subsidy as for basic and optional units, resulting in subsidy increases of more than a third for most coverage levels
- Resulted in significant increases in enterprise units from 2008 to 2009 but no increase in whole farm units
- Classified as a pilot in the statute. RMA wants next Farm Bill to clarify this

Enterprise Units

Increase in Enterprise Units: 2008-2010



Additional Program Improvements

- COMBO Completed – IT systems improving
- New Area Risk Protection Insurance policy
  - Combines GRP/GRIP/GRIP-HRO
  - Standardize data and data transfer for greater precision ag use

Additional Program Improvements

Prevented Planting in Prairie Pothole Region

- RMA is working to address situations where producers receive prevented planting payments for several years in a row on the same acreage.
- Almost all cases were in the Prairie Pothole Region (MT, ND, SD, MN, and IA)
- RMA filed a Special Provisions of Insurance (SPOI) Statement for the 2012 crop year
    - ✓ The SPOI statement limits acreage eligible for preventing planting coverage to acreage that has been planted and harvested in at least one of the last 4 years

Additional Program Improvements

The Prairie Pothole Region statement also limits PP acres to:

- ➢ Acreage that has or recently had marsh vegetation (e.g., cattails, bulrushes, and pondweeds), coarse emergent plants, or submerged aquatics;
- ➢ Acreage that has any other condition, as determined by us, that would prevent the proper and timely planting of the crop when weather and other conditions are normal for the area in which the acreage is located
  - ✓ **For example,** acreage that is normally too wet to plant in the spring may be dry enough to till or plant and even insure a crop in the fall. Such acreage would not be available for planting a spring crop event though such acreage may have been tilled, planted and/or insured the previous fall

Additional Program Improvements

New Breaking Insurability

- In June 2011 RMA issued a Manager’s Bulletin (MGR-11-006) addressing the insurability of newly broken cropland

- The Common Crop Insurance Policy Basic Provisions provide that acreage which has not been planted and harvested or insured in at least one of the three previous crop years is generally uninsurable unless:
  - ✓ The acreage was not planted to comply with another USDA program (e.g. CRP);
  - ✓ The acreage was not planted due to crop rotation (e.g. alfalfa/hay ground), and the rotation can be documented;
  - ✓ Such acreage constitutes five percent or less of the insured planted acreage in the unit; or
  - ✓ A written agreement specifically allows insurance for such acreage (these written agreements are identified as New Breaking, or NB written agreements)

Additional Program Improvements

New Breaking Insurability

- Over last several years RMA ROs processed thousands of New Breaking written agreement requests (primarily in the Great Plains Region)

- For CY12 RMA will allow insurance companies to approve insurability of this newly broken land directly (instead of going through the formal RMA written agreement approval process) through SPOI Statement, if certain requirements are met, such as:

  - ✓ Newly broken land has a substantiated history of crop production; soils on the land are suitable for crop production (75 percent or more NRCS Capability Class I through IV soils); land was broken timely; new breaking acreage for the operation is 160 acres or less for CY, etc.

Additional Program Improvements

New Breaking Insurability

- This New Breaking SPOI Statement should promote greater system-wide efficiency and will be included in counties located in the following states: CO, IA, KS, MN, MO, NE, ND, SD, WI, WY
- MGR-11-006 also requires the tracking of new breaking acreage down to the FSA Farm/Tract/Field (CLU) level
- For land where a cropping history cannot be substantiated (e.g. native sod), MGR-11-006 limits the New Breaking written agreement coverage to a maximum of 65 percent of the applicable T-Yield

What's Coming Tomorrow?

New Program Feature – Trend Adjusted Yield

- Announced September
- Additive upward adjustment to yields that reflect the long-term trend
- Example: Trend of 2 bushel per year
  - ✓ A yield from 2010 increased by 2 for 2011
  - ✓ A yield from 2009 increased by 4
- Trend will vary by crop and county

Current Issues

Extreme Weather Conditions

- Drought
  - ✓ Unseen since Dust Bowl
  - ✓ All of Texas declared a disaster
- Flooding
  - ✓ Mississippi River
  - ✓ Missouri River Basin

Current Issues

Corn Test Weight

- Companies requested changes be made and complained of over-paid indemnities when producers sold low test weight corn for little discount after they had previously settled claims on unsold production using .500 DF
- Beginning with 2011, the test weight chart extended from 46 lbs down to 40 lbs/bu
  - ✓ Grain Sorghum test weight chart already at 40 lbs/bu.
- Test weight must fall below 40 lbs/bu. before a .500 DF will apply for unsold production

Compliance & Enforcement

Data Mining

- Efforts of past 6 years yield significant results
- CBO: "Over 1.6 billion in cost avoidance since inception"
- Application of satellite imaging and remote Doppler radar cited in profession and legal studies and cases
- Company participation

Compliance & Enforcement

- RMA takes program compliance seriously
- RMA has suspended an agent and an adjuster related to ongoing tobacco investigation. Another agent is currently serving jail time. Several additional administrative sanctions are pending for next month against numerous others involved in investigation.
- Wheat farmer in CA convicted in May on 16 counts of false statements and sentenced in July to 30 months in jail and over $100K in criminal & civil fines. RMA is pursuing administrative sanctions.

Farm Bill

The Secretary said…

The Farm Bill is about supporting jobs, keeping pace with the changing needs of agriculture and rural America, and about providing a food supply for the nation.

American agriculture is responsible for one out of every 12 jobs in America and is a bright spot in the American economy

A safety net must provide producers assistance quick, it must reflect the diversity of American agriculture – it must work for farmers of all types and sizes. It needs to be simple enough to understand. And it must be accountable and justifiable to all American.

Thank You

Bill Murphy
Administrator
Risk Management Agency