Federal Crop Insurance: A Program Update

Minnesota Crop Insurance Conference
Mankato, MN
September 12, 2012

FEDERAL CROP INSURANCE
PROGRAM OVERVIEW

William J. Murphy, Administrator Risk
Management Agency
The 2012 Drought

★ RMA and its private delivery partners are prepared for the 2012 crop year.

★ There is adequate funding for 2012 losses.

★ There is an adequate loss adjuster workforce to complete claims.

★ Although, policies are sold by private companies they are reinsured by the USDA, Federal Crop Insurance Corporation, Risk Management Agency.
The 2012 Drought

- Premium Billing Date and Interest Penalty
- Cover Crops – Haying and Grazing
- Increased Threshold for APH reviews
  - $100,000 to $200,000
  - Will Continue to monitor

William J. Murphy, Administrator
Risk Management Agency

A Snapshot

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012 (so far)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>$78 Billion</td>
<td>$114 Billion</td>
<td>$115 Billion</td>
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<tr>
<td>Acres Insured</td>
<td>256.2 Million</td>
<td>265 Million</td>
<td>279 Million</td>
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<tr>
<td>Total Premium</td>
<td>$7.6 Billion</td>
<td>$11.95 Billion</td>
<td>$10.9 Billion</td>
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<tr>
<td>Indemnity (Claims Paid So Far)</td>
<td>$4.2 Billion</td>
<td>$10.84 Billion</td>
<td>$1.4 Million</td>
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<tr>
<td>Loss Ratio</td>
<td>.56</td>
<td>.91</td>
<td>.13</td>
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</table>

Data current as of September 10, 2012

William J. Murphy, Administrator
Risk Management Agency
Premium, Indemnity & Liability

National Crop Ranking

<table>
<thead>
<tr>
<th>Crop</th>
<th>Crop Liability</th>
<th>Percent of Total</th>
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</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$51.5 Billion</td>
<td>45.5%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$25.6 Billion</td>
<td>22.5%</td>
</tr>
<tr>
<td>Wheat</td>
<td>$10.3 Billion</td>
<td>9.1%</td>
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<tr>
<td>Cotton</td>
<td>$6.7 Billion</td>
<td>5.9%</td>
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<tr>
<td>Nursery (FG&amp;C)</td>
<td>$2.3 Billion</td>
<td>2.0%</td>
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<tr>
<td>Citrus</td>
<td>$2 Billion</td>
<td>1.8%</td>
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<tr>
<td>Rice</td>
<td>$1.2 Billion</td>
<td>1.1%</td>
</tr>
<tr>
<td>Potatoes</td>
<td>$1.0 Billion</td>
<td>0.9%</td>
</tr>
<tr>
<td>All Others</td>
<td>$1.27 Billion</td>
<td>11.2%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$113.3 Billion</strong></td>
<td><strong>100.0%</strong></td>
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Overview
Liability

Total Crop Insurance Liability

Overview
Participation

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<tr>
<th>Crop</th>
<th>Plan</th>
<th>Ins Acres</th>
<th>Crop</th>
<th>Plan</th>
<th>Ins Acres</th>
<th>Crop</th>
<th>Plan</th>
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<tr>
<td>Corn</td>
<td>Group</td>
<td>2.8</td>
<td>Soybeans</td>
<td>Group</td>
<td>1.8</td>
<td>Rice</td>
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<td></td>
<td>APH</td>
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<td></td>
<td>Total</td>
<td>78.1</td>
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<td>Total</td>
<td>63.3</td>
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<td></td>
<td>Partic.</td>
<td>85%</td>
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<td>84%</td>
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<tr>
<td></td>
<td>% BUP</td>
<td>95%</td>
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<td>% BUP</td>
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<td>% BUP</td>
<td>57%</td>
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<tr>
<td>Cotton</td>
<td>Group</td>
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</tr>
<tr>
<td></td>
<td>APH</td>
<td>4.4</td>
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<tr>
<td></td>
<td>Rev</td>
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<td>Rev</td>
<td>38.1</td>
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<td></td>
<td>Total</td>
<td>13.5</td>
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<td>Total</td>
<td>47.5</td>
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<td></td>
<td>Partic.</td>
<td>94%</td>
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<td>Partic.</td>
<td>87%</td>
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<tr>
<td></td>
<td>% BUP</td>
<td>88%</td>
<td></td>
<td>% BUP</td>
<td>93%</td>
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FCIC Loss Experience
1981-2011

RECENT PROGRAM CHANGES
New Program Feature
Trend Adjusted Yield

- Additive upward adjustment to yields that reflect the long-term trend
- Trend will vary by crop and county
- Will be expanded into additional crop programs
- 2013: Corn/Beans, Wheat, Canola, Grain Sorghum, Cotton and Rice
Trend Adjusted Yield
Corn and Soybeans  2013

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
**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

ACRSI Project
High Level Objectives

- Provide self-service solutions for producers to participate in USDA programs
  - Provide options to report common data
  - Consolidate acreage reporting dates
  - Standardize requirements to facilitate data sharing across farm programs
  - Publish data standards to provide Private Ag Services the option to incorporate
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.

Rating Methodology

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.
Next Steps

☆ Analyze and address reviewer (or other) comments and recommendations
  - Replicate reviewer analysis/results, sensitivity analysis, consult with reviewers as needed
  - Key issues: Pre-95 adjustment, Weather Weighting
  - Make revisions to methodology as appropriate

☆ Complete in time for 2013 crop year
  - Apply to spring wheat, cotton, rice, sorghum and others

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.
Organics

★ The Risk Management Agency (RMA) offers Organic Federal Crop Insurance for crops grown under the organic farming practice provided they meet standard terms and conditions.

★ Transition to Organic farming practices is also covered.
Risk Management Agency
Certified Organic Acreage Insured
2004-2011

Certified Organic Experience by Liability 2004-2011

New Crops with Organic Prices for 2013

- Avocados,
- Stonefruit:
  - Fresh Freestone Peaches,
  - Fresh Nectarines, and
  - Plums

All in California - beginning with 2013 Crop Year.
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**
- 22 Pilot Programs Operating
- 2 Approved for Conversion to Regulatory, including Forage Seed

New Insurance Programs

- APH Camelina - 2012
- APH Pistachios - 2012
- APH Olives - 2012
- High Land Risk Endorsement - 2013
- Pulse Crop Revenue – 2013?
- Downed Rice – 2013?
Planned New Product Development

☆ Combined Area Plans- GRP/GRIP = ARPI
☆ Triticale Program development
  ● Contracted-in progress
  ● Within small grains policy
☆ Precision Ag recognized
  ● Data used in program
☆ Use of Common Land Units
  ● APH
  ● Compliance

Regulation Update

☆ 2013 Crop Year
  ● Processing Chili Peppers
  ● Fresh Market Tomato – Dollar Plan
☆ 2014 Crop Year
  ● Area Risk Protection Insurance Plan
  ● CAT Endorsement
  ● Florida Citrus
  ● Pecan Revenue
  ● Peaches
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.

Thank You

Bill Murphy
Administrator
Risk Management Agency