Crop Insurance Update

William J. Murphy
Administrator

Mankato, MN
September 15, 2010

Business Summary
Federal Crop Insurance Program

Crop Year 2009 Results

Crop Value (Liability) $80 Billion
Acres Insured 265 Million
Total Premium $9 Billion
(Subsidized Premium) $5.4 Billion
Claims Paid (Indemnity) 2009 $5.2 Billion
Loss Ratio CY 2009 .58

As of 9-03-2010
Program Growth:
Participation by Insurance Plan

Liability by Plan Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Other</th>
<th>Group</th>
<th>Revenue</th>
<th>APH</th>
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(Billion)

As of 9-03-2010

Program Growth:
Participation By Crop

2009 Crop Ranking by Liability (as of 7-26-10)

<table>
<thead>
<tr>
<th>Crop</th>
<th>Liability ($ Mil.)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$31,485</td>
<td>39.6%</td>
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<tr>
<td>Soybeans</td>
<td>$17,034</td>
<td>21.4%</td>
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<tr>
<td>Wheat</td>
<td>$10,599</td>
<td>13.3%</td>
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<tr>
<td>Nursery (FG&amp;C)</td>
<td>$3,187</td>
<td>4.0%</td>
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<tr>
<td>Cotton</td>
<td>$2,213</td>
<td>2.8%</td>
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<tr>
<td>Orange Trees</td>
<td>$1,457</td>
<td>1.8%</td>
</tr>
<tr>
<td>Rice</td>
<td>$1,060</td>
<td>1.3%</td>
</tr>
<tr>
<td>Potatoes</td>
<td>$1,052</td>
<td>1.3%</td>
</tr>
<tr>
<td>All Others</td>
<td>$11,444</td>
<td>14.4%</td>
</tr>
<tr>
<td>Total</td>
<td>$79,533</td>
<td>100.0%</td>
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</tbody>
</table>
### Minnesota Insurance Coverage

<table>
<thead>
<tr>
<th>Year</th>
<th>Policies</th>
<th>Acres</th>
<th>Value (Liability)</th>
<th>Total Premium</th>
<th>Premium Subsidy</th>
<th>Paid Claims</th>
<th>Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>198,536</td>
<td>18,423,191</td>
<td>5,495,371,709</td>
<td>520,028,206</td>
<td>238,698,439</td>
<td>236,410,366</td>
<td>.45</td>
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<tr>
<td>2008</td>
<td>196,932</td>
<td>18,585,311</td>
<td>7,823,241,353</td>
<td>844,971,861</td>
<td>471,610,018</td>
<td>691,636,461</td>
<td>.82</td>
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<tr>
<td>2009</td>
<td>162,495</td>
<td>16,955,095</td>
<td>6,080,089,304</td>
<td>626,478,484</td>
<td>380,220,040</td>
<td>150,991,364</td>
<td>.34</td>
</tr>
<tr>
<td>2010*</td>
<td>150,971</td>
<td>16,643,813</td>
<td>6,128,148,093</td>
<td>522,335,763</td>
<td>321,487,669</td>
<td>11,897,413</td>
<td>.02</td>
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</tbody>
</table>

*As of 9-03-2010

### Combined Common Crop Insurance Policy

- Combo policy available beginning with fall-planted 2011 crops
- Crop Programs Available Under Combo
  - Coarse Grains (Corn, Grain Sorghum, Soybeans)
  - Small Grains (Barley and Wheat)
  - Cotton
  - Rice
  - Canola/Rapeseed
  - Sunflowers
One policy now provides:

**Yield protection plus**

**Revenue protection, plus**

**Revenue protection with Harvest Price Exclusion (HPE)**

Formally known as:

- Revenue Coverage (CRC)
- Revenue Assurance (RA)
- Income Protection (IP)
- Indexed Income Protection (IIP)
- Revenue Protection with and without HPE

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**Yield/Revenue Policies Combined (cont.)**

**APH** plan for Corn, Grain Sorghum, Soybeans, Barley, Wheat, Cotton, Rice, Canola/Rapeseed and Sunflowers is replaced by the yield protection plan

**One Projected Price based on Commodities Exchange Price Provisions or CEPP** (established and additional price elections are no longer applicable)

**Harvest prices** will apply to revenue insurance only, not APH

**Price Elections** (established and additional) will continue for remaining APH plans
**Development Priorities**

*CY2010 – Farm Bill Requirements*

- Organics – Review Rating and Pricing
  - Contracted Studies Posted On Aug. 30th
  - New Pricing for 2011 – Corn, Soybeans, Cotton and Processing Tomatoes
  - 5% Surcharge eliminated on certain tree/specialty crops

- Sesame Pilot Program (TX/OK)

- Grass Seed Pilot Program (MN/ND)

- Dedicated Energy Crops – Contract out for Research and Feasibility

- Cotton Seed

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**Development Priorities**

*CY2010 – Farm Bill Requirements (Cont.)*

- Apiculture – Honeybees

- Poultry

- Skip Row Cropping Practices

- Pistachios

- Yield Monitoring – (Use of Combine Monitors and other technologies in the crop insurance program)
In 1995, regulations established APH plan of insurance (since inception around 1990):

- Reflected underwriting improvements identified in 1994 actuarial blueprint
- Intent to more closely align individual guarantees with individual productivity to address program equity concerns and improve actuarial soundness
- Represents last systematic review of APH program underwriting methods and procedures

In 2009, APH-based programs accounted for:

- 93 percent of all policies earning premium
- 85 percent of all program liabilities
- 91 percent of all premiums

Fundamental basis of APH program is sound and does not require significant overhaul but:

- Does not reflect advances and capabilities in data, technology, etc.
- Need to reduce administrative burden, provide more appropriate insurance guarantees, and improve actuarial efficiency and program integrity
Declining Yields - 2008 Farm Bill mandated USDA provide report to Congress on declining yields. To suggest:

- Alternative yield plug that relies on producer’s own history rather than county averages
- Replace t-yields with personal t-yield, similar to PTY pilot in N. Dakota
- Variable percentage tied to number of actual yields
  - More actuals => higher percentage
- Eliminate yield floor, maybe yield limitation
- Legislation may be required, cost/Paygo considerations?

Goals of APH Program Review

- In 2008 RMA established internal working group to conduct comprehensive evaluation of APH program. Specific objectives were:
  - Simplification – simplify administration, reduce complexity, and provide greater clarity/consistency
  - Efficiency – reduce costs, resource requirements, and personnel demands
  - Integrity – eliminate or mitigate effects of program vulnerabilities
  - Innovation – adapt new/forthcoming technological innovations as appropriate
APH Program Concerns & Issues

- Issues include:
  - Program structured as series of annual policies between producers and AIP’s
    - All data submitted to RMA each year, including all historical information
  - Program is unable to track geographical location of insured acreage
  - Fluidity of production histories, production reporting, unit structures, etc.
    - Few impediments to forestall abuses
    - Data mining, compliance, etc. can only identify abuse after it has occurred, needs preventive help

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APH Program Concerns & Issues (cont.)

- All records for a producer submitted to RMA annually:
  - Administratively burdensome on program stakeholders
  - No consistency or continuity across years
  - Tracking producers across years is an exercise in frustration
    - Time & resources required for such
    - Data/information lost in matching process
File cabinet ‘mentality’ characterizes design of current IT system

- Different record types for storing each piece of information (e.g., yield, acreage, etc.)
  - Functionally, record types exist independently of one another
  - Inefficient use of time and resources to match record types to construct producer history

Two permanent historical databases constructed and maintained, one for producer and other for land

- Reside with RMA
- Include acreage, yield, premium, liability, indemnity, etc.
  - Land descriptor would be CLU
  - Producer descriptor would be SSN
- Insured’s data would be annually reported with each year’s new experience simply added to previous history
All producers required to annually report production
- Group plan policyholders would be required to report production
- Production reporting tied to current year’s policy, not next year’s policy
- Data contained in permanent databases would be used for all program purposes, e.g., establishing guarantees, etc.
- Historical data could not be ‘lost’ by insured/agent

Unit structures an aggregation of underlying CLU’s, minimizing ability to create new unit structures, etc.
Simply match individuals in Producer Database to land they insure in Geographical Database.
Benefits include:

- Simplify production reporting requirements for producers
- Enable efficient use of data mining capabilities to identify possible misreporting or fraud
- Required production reporting would support data sharing across USDA

Designed to accommodate new business rules
- Permanent databases
- Annual updates
- Consistent file structure
- Reporting of only necessary data elements
- Operational database
Methodology/RMA & FSA

- RMA Uses Crop Units – Mapping Limited To Farm Level
- FSA Collects Data By Tract/Farm/Field
- CAE Joins RMA And FSA Data Together
- Result – Mapping Down To The Individual Field

Comprehensive Information Management System (CIMS)

- 2002 Farm Bill Initiative to develop a system to provide timely access to data for administering USDA programs
  - Use Common Land Unit (CLU)
  - Standardize reporting of entity, location, crop names, codes, reporting dates, business reporting requirements, production history, etc.
  - AIP’s and FSA can now access
Yield Monitoring

- Where we are currently:
  - 2011 Crop Insurance Handbook allows yield monitors as acceptable production report
    - Allows for separation of production from non-irrigated corners of a center pivot
  - For 2011 Loss Adjustment Manual RMA plans to take steps to allow yield monitors to be acceptable for claims purposes.
  - Continue to engage technology
    - Common interfaces
    - 'USDA’ application (one report)
    - Appropriate standards, procedures, etc.

Heyward Baker
Risk Management Agency

Program Integrity

- Data Warehouse/Data Mining
  - Spot Check Listing
  - Growing Season Inspections
- National Operations Reviews
  - Program and Contract Compliance
- Good Farming Practice Determinations
- Large Claim Reviews
- Over $1.5 Billion in Savings to Taxpayers since these initiatives began
RMA Met its Goals

• New SRA for the 2011 reinsurance year
• All insurance companies signed on in July
• Align Administrative and Operating subsidy closer to actual delivery costs
• Provide a reasonable rate of return
• Equalize reinsurance performance across States to more effectively reach under-served producers, commodities and areas
• Simplify provisions to make the SRA more understandable and transparent
• Continue to support producer access to important risk management tools
• Enhance program integrity
Going Forward…
Priorities and Challenges

- Implement the new SRA
- Combo and ITM Implementation
- Pay Go – SRA provided savings – continues to impact expansion and improvements to crop insurance programs
- New product submissions and concept proposals
- Sustaining well-run programs that are effective, reliable, and sound
- Congress is already talking about the next Farm Bill!

Crop Insurance
Now, More Than Ever

- The severity of weather events resulting in heavy isolated losses during tough economic times make risk management critical for farmers and ranchers
- We must continue to evaluate, review and ensure our programs are effective
- We need your guidance, cooperation and support
- With that:
  - We will do our very best to serve:
    - you,
    - The American farmer and rancher,
    - The taxpayer,
    - The will of Congress
Risk Management Agency
Federal Crop Insurance Corporation
William J. Murphy, Administrator
(202) 690-2803
www.rma.usda.gov