

"...Where to now, St. Peter?"



Tom Zacharias, NCIS President

This will be the first issue of *TODAY*® magazine since the signing of the 2014 Farm Bill. For the past few years, many of us have spent countless hours speculating, articulating, triangulating, and in some cases hyper-ventilating about the coming of the Farm Bill. At a time when Congress has been criticized for doing nothing, the fact that Congress passed a comprehensive, five-year Farm Bill by an overwhelming bipartisan margin is significant. And the fact Congress chose crop insurance as the centerpiece for the farm safety net in the bill is humbling.

Neither accomplishment would have been possible if not for the tireless work of Congressional leaders from the Senate and House Agriculture Committees who refused to take no for an answer; the numerous agricultural associations and the farmers they represent

who made crop insurance a top priority; our partners at the USDA's Risk Management Agency (RMA); representatives from the AIPs who took countless trips to D.C.; the industry's government relations team; and, new friends like the conservation community.

On behalf of the crop insurance industry, and the customers we serve, thank you.

"...So where to now, St. Peter?"

Well, now what? As we look to introduce new risk management tools, such as Supplemental Coverage Option (SCO) and Stacked Income Protection Plan (STAX), and the elimination of direct payments, SURE and ACRE, the lyrics of Elton John's song, "Where to now, St. Peter?" come to mind here:

"...I understand I'm on the road where all that was is gone...show me which road I'm on..."

First, we have to go (or is it "get to go?") through the process of implementing the new legislation. This process is currently underway as the Administration and the staffs of USDA and RMA draft the various policies, procedures, and regulations that will be required. As appropriate, the various stakeholders and partners in the delivery system are brought into the various stages of implementation. As the Carpenter's used to sing *"...we've only just begun..."*

As we reflect upon the passage of the Bill, those of us in crop insurance need to keep a few constructs in mind as we go forward. For the Farm Bill and industry to succeed, crop insurance must be: 1) Available; 2) Affordable; and, 3) Viable. Each of these elements are interdependent and key to the further success of crop insurance. With these ideas in mind, I will be starting a three part series in the President's Reports dealing with each of these topics. I will attempt to define each of them and put them into context with each other.

In this issue we will deal with the subject of **availability**. If crop insurance is to remain successful, it is vital that the program be widely available to all farmers growing all different types of commodities.

On a temporal scale, we can think of availability through the lens of Dickens' "Christmas Carol"

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“Availability Past,” “Availability Present,” and “Availability Future.”

Availability Past

“...What a long strange trip it's been...” (The Grateful Dead). (Somehow I just cannot avoid the lyrics and the metaphors this time around.) In 1980, the Federal Crop Insurance Act expanded the crop insurance program that began in 1938 by increasing the number of commodities insured and bringing in the private sector delivery system. However, participation remained lower than Congress had hoped for and even as late as the early 1990's, crop insurance participation rates hovered in the 30 percent range and Congress was often spending considerably more money each year in disaster relief expenditures than it was on crop insurance.

The Federal Crop Insurance Reform Act of 1994 dramatically restructured the program and through discounts built into the new program guidelines, participation increased dramatically. By 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase over 1988.

In May of 2000, Congress approved another important piece of legislation: the Agricultural Risk Protection Act (ARPA). The provisions of ARPA made it easier for farmers to access different types of insurance products including revenue insurance and protection based on historical yields.

During this period, availability expanded in a number of ways. First, successive Farm Bills have continued to expand the number of crops covered by crop insurance. In the beginning, it was largely confined to major commodity grains. Today, crop insurance covers all major commodities and a long list of specialty crops including apricots, blueberries, cherries, olives and tangerines, just to name a few.

Crop insurance is also available for different levels of coverage. Just like other forms of insurance, different farmers are comfortable with varying levels of risk. Some farmers might want to shoulder a twenty-five percent loss of crop before their crop insurance protection can be evoked, others can only afford to lose a much lower percentage of the crop. In short, individual farmers purchase policies based on their own risk management needs.

The other aspect of availability that must be



mentioned is that unlike most other forms of insurance, crop insurance must be sold to any farmer, regardless of their risk profile, at a rate set by the USDA/RMA. This ensures that the most vulnerable farmers, who may be small-scale operators and underserved farmers, can purchase the coverage they need.

To this end, the crop insurance industry, in conjunction with the Risk Management Administration (RMA), holds seminars across the country focused on presenting risk management tools to socially and economically disadvantaged farmers. NCIS has been instrumental in providing risk management and crop insurance education to these farmers through a series of Cooperative Agreements funded by the Risk Management Agency.

Availability Present

In 2013, 1.2 million policies were sold protecting more than 128 different crops covering 296 million acres with an insured value of \$124 billion. Coverage is available on many crops including everything from blueberries to wheat, grain sorghum to mint. Today, more than 70 percent of specialty crops grown in the United States are protected by crop insurance. Also, margin products are available to livestock producers, including dairy cattle, swine and lambs.

One of the ongoing strengths of the crop insurance program remains the fact that coverage is tailored to each individual's risk tolerance. There is a range of deductibles available and a variety of products so producers can

choose what works best for them.

Without question, the 2014 Farm Bill expanded the availability of crop insurance on several levels. With the introduction of price decline and margin coverage, and the introduction of whole farm coverage, crop insurance continues to be at the forefront of a farmer's risk management toolbox and in many cases, the only safety net they have available to them. Additionally, Congress expanded coverage to beginning farmers, ensuring that the next generation of this nation's farmers have the risk management tools in hand they need to manage the volatile markets and weather conditions they face.

The 2008 Farm Bill's direct and countercyclical payment programs and the state-based revenue program known as ACRE (Average Crop Revenue Enhancement Program) were eliminated in the new Farm Bill. In their place, a farmer may choose one of two new farm programs: 1) Price Loss Coverage (PLC) or 2) Agriculture Risk Coverage (ARC). These programs are designed to supplement crop insurance by providing support in periods of multi-year price declines and helping producers cover the crop insurance policy's deductible.

The major enhancement to crop insurance is the addition of two supplemental policies that will help producers expand their protection against losses due to natural disasters or price declines. The first program, the Stacked Income Protection Plan, or STAX is an additional area revenue plan that a cotton producer may use alone or in combination with an underlying policy or plan of insurance. The second program, the Supplemental Coverage Option, or SCO, provides all crop producers with the option to purchase area coverage in combination with an underlying individual policy or plan of insurance that would allow indemnities to be equal to a part of the deductible on the underlying the policy or plan of insurance.

Availability Future

Just like the ghost of Christmas Future explained in the movie *The Scrooge*, the future is what we make it because it has yet to be written. But the future starts today, and with that in mind, we must all work together to ensure a smooth and successful implementation of the 2014 Farm Bill. This will require both cooperation and coordination between and among all participants in the public private partnership that constitute

the current crop insurance infrastructure.

When talking about our future, we must recognize that there is still work to be done on providing insurance for new and specialty crops that are without any form of crop insurance protection. Thankfully, language in the Farm Bill may result in a number of new crop insurance products including rice and catfish margin insurance, policies for sweet sorghum, biomass sorghum, sugarcane, pennycress and other energy and specialty crops.

Nothing speaks louder than success, and the success of crop insurance is largely based on its widespread availability. In 2012, when the greatest drought the nation had seen since the Dust Bowl days hit the nation, some 84 percent of planted cropland was protected by crop insurance.

This availability, in essence, planted the seed for future growth of the program, as farmers purchased even more coverage in 2013, with coverage for planted cropland increasing to 90 percent.

As an industry we take seriously our responsibility to effectively deliver crop insurance to all eligible producers. In practice this includes educating producers, at their level of understanding, about risk identification and how crop insurance can be integrated into their personal risk management plans. With industry and RMA support, current NCIS outreach activities place special emphasis on helping small-scale, limited resource, socially disadvantaged farmers, and producers of underserved commodities that are covered by crop insurance but have participation rates lower than the national average. Many of these producers have limited historical knowledge and/or personal experience with crop insurance programs. It is imperative that all farmers and ranchers are fully informed of available insurance tools, their merits, and learn how they can be used in concert with the other risk management and cost control strategies they employ.

Availability Why?

It is easy for us to fall into “crop insurance industry-farmer speak” when we talk about issues like availability, affordability, and viability. But beyond our world, why are these ideas important? What is the broader perspective?

For this, we go back to first principles. Most people in this country, and it is probably safe to say even globally, believe that a viable and thriving agriculture is in the public interest and

that there is public benefit to a healthy agricultural sector. Given such a public interest, public support can be justified.

How is this public support for agriculture manifested? Look to the New Farm Bill, where we have transitioned from direct income support for farmers to an insurance-based risk management system, in which farmers share in the cost of the program and only receive an indemnity in the event of an insurable loss. Yes, farmer premiums are discounted to make crop insurance affordable. By making the insurance more affordable to farmers, we have experienced broader participation in crop insurance and greater availability of new and improved coverage. In turn, there is less reliance on the need for costly *ad hoc* disaster programs, which are off budget. So why is crop insurance availability important? Because crop insurance availability is a necessary condition for an effective farm safety net. An effective farm safety net is important for stability of the agricultural sector, which is fundamental to a modern society.

“...So where to now, St. Peter? Show me which road I’m on...” (thanks, Elton) With the signing of the 2014 Farm Bill and implementation underway, we are definitely on a “new road.” And no doubt we will need a little divine intervention to stay on the right path.

In our next issue we will talk about the importance of crop insurance affordability, stay tuned.

In this issue, we feature some of the events from our Industry Annual Convention, which took place in Scottsdale, Ariz., in early February. We also have our “Year in Review” article, which has become a regular feature in this publication. It is a look back at the 2013 crop season—weather events, data from both the Federal crop insurance program and Crop-Hail, including a look at the Canadian hail program, and commodity markets and prices. Another highlight in this issue is the 25th Anniversary of National Crop Insurance Services. NCIS has seen a lot of changes and growth in the industry the last 25 years, and has been a pillar of support for our members through it all. Many people have worked at NCIS over the years and we thank them all for their leadership, work ethic and dedication to NCIS and the industry. Several of these dedicated individuals have been working here since the “beginning” and include: Jim Crist, Loretta Sobba, Richard Whitmore, Therese Stom, Rich Byrne, Chris Lindsay, Sherri Scharff, Robin Hill and Jon Chowning. They, along with the other NCIS staff, will continue to provide the best service and technical expertise to our members and the industry. We look forward to another 25+ years!

(I would like to personally thank Laurie Langstraat, Dave Ray and Phillip Hayes for their contributions to this piece and our ongoing public relations efforts.)



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