

# Crop Insurance Program Update

William Murphy  
USDA Risk Management Agency

2008 Insurance Workshop

**“Meeting the Risk Management Challenges of a  
New Farm Bill and New Price Relationships”**

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Courtyard by Marriott  
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# Crop Insurance Update

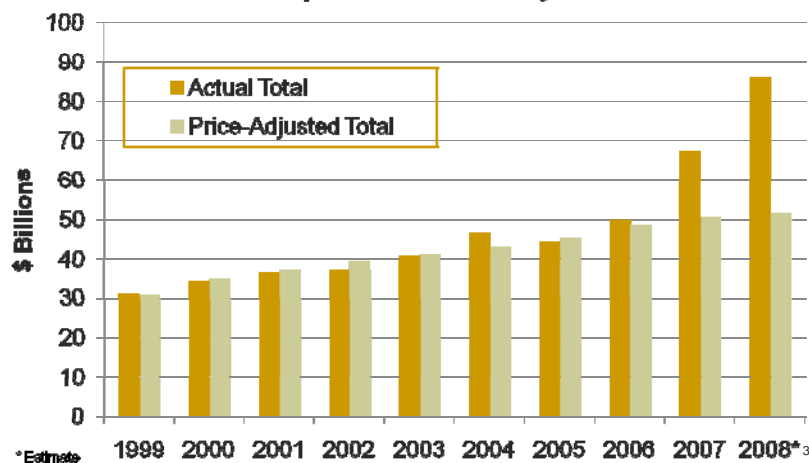
Bill Murphy  
Risk Management Agency

# Crop Insurance Update

- Where We Have Been
- General "Farm Bill" Update
- Program Challenges Ahead
- Insider Issues and Questions

# Crop Insurance: Then and Now

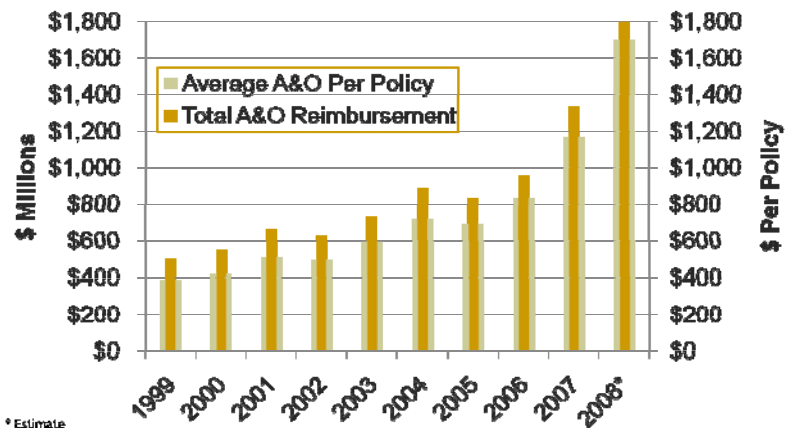
Crop Insurance Liability



\* Estimate

# Crop Insurance: Then and Now

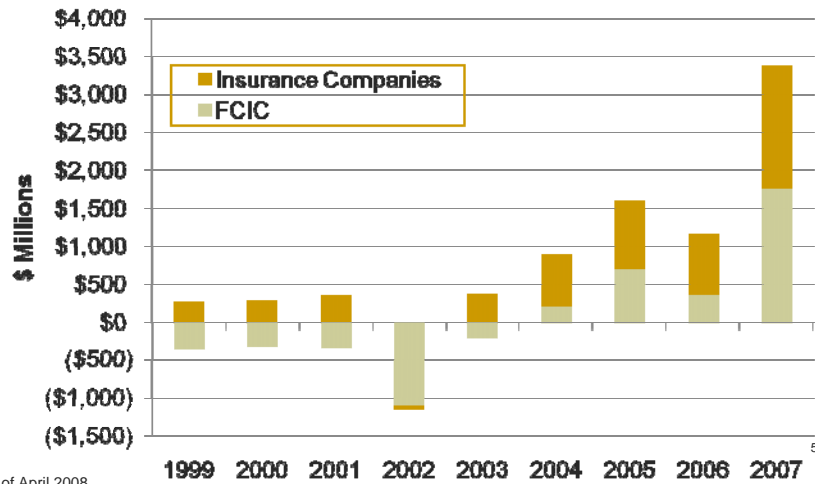
A&O Reimbursement to Insurance Companies



\* Estimate

## Crop Insurance: Then and Now

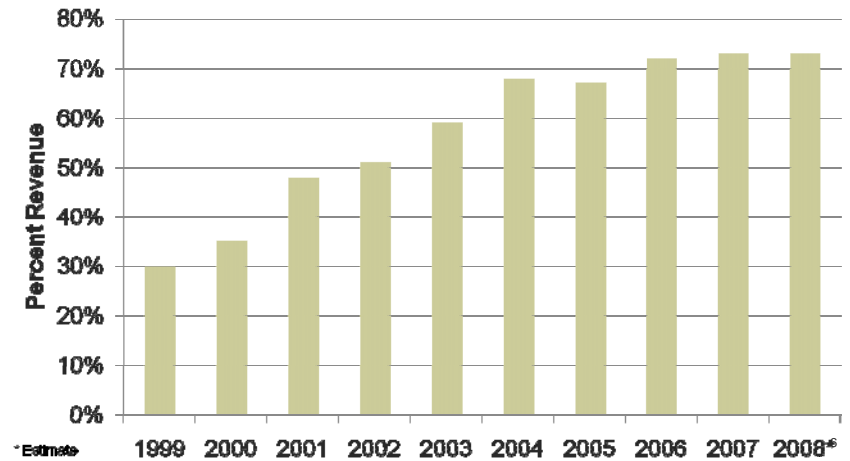
Underwriting Gains/Losses



As of April 2008

## Crop Insurance: Then and Now

Proportion of Acres w/Revenue Coverage



<sup>6</sup> Estimate

## Food, Conservation and Energy Act of 2008 (Farm Bill)

- Savings
- Program Changes
- Shift in commodity programs toward revenue-based payments

## Food, Conservation and Energy Act of 2008

- Savings
  - Reduction in A&O reimbursement rate to insurance companies (2.3%)
  - Reduction in premium subsidies for area-based plans (4%)
  - Increase in CAT administrative fees (\$100 to \$300)

## Food, Conservation and Energy Act of 2008

- Savings (continued)
  - Decreased funding for new product development
  - Reduction in target loss ratio from 1.075 to 1.00
  - Change in timing of A&O payments and premium billing dates
  - Change in timing of producer payment of premium.

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## Food, Conservation and Energy Act of 2008

- Program Changes (continued)
  - Crop-Specific
    - Organic premium rates and prices
    - Native sod
    - Sorghum price
    - Malting barley quality coverage
    - Tobacco units
    - Aquaculture insurance
    - Poultry insurance
    - Camelina, Sesame, Grass Seed
    - Energy Crops

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## Food, Conservation and Energy Act of 2008

- Program Changes
  - Other
    - Private submission process revised
    - Premium reduction plans eliminated

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## Food, Conservation and Energy Act of 2008

- Shift toward revenue-based payments
  - Area-based payments
    - Average Crop Revenue Program (ACRE)
    - Similar to RMA's area revenue products
    - Offset to crop insurance considered
  - Individual-based payments
    - Supplemental Revenue Disaster Program (SURE)
      - Explicitly accounts for crop insurance coverage
      - Similar to RMA's whole farm coverage

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## Food, Conservation and Energy Act of 2008

- Looking ahead: How should systemic risk be covered?
  - Both farm programs and crop insurance are increasingly covering the same risk (loss of revenue).
  - Potential issues for the next Farm Bill.

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## FCIC Board of Directors

- Recent Actions
  - Biotechnology approval/expansion
  - Aquaculture
- Future Actions (?)
  - Named Peril & Quarantine programs
  - Various section 508(h) submissions
- New Board Members

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## Program Challenges

- Farm Bill Fallout- SURE (disaster program) and ACRE implementation, along with side effects!
- OIG Management Challenges – CIMS and future farm program coordination
- Energy and future strategy?

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## Program Challenges (Cont.)

- Information Technology Modernization effort – “Combo” Initiatives
- Ever-expanding program – Competition for dollars
- Program Maintenance – Actuarial Sufficiency or Price Gouging?
- Transition and New Administration

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## 2008 Corn Policies

State Code	19	17	18	27	
State Abbreviation	IA	IL	IN	MN	
No. of corn policies received as of 10-7-08	62,939	52,256	18,547	31,438	165,180
Total corn acreage under policies received	11,735,748	9,386,200	3,908,299	7,040,237	
Corn premium for policies received	576,555,642	547,649,751	243,277,711	388,710,897	
No. of corn policies received as of 10-7-08 with BYE	8,437	8,218	2,763	8,050	27,467
Total corn acreage under policies with BYE	2,104,037	1,794,937	704,557	2,409,924	7,013,455
Corn Premium for policies with BYE	97,955,793	85,561,533	39,370,638	129,208,467	
No. of BYE Acres under policy	1,649,799	1,620,769	598,631	1,959,538	5,828,737
Corn premium for BYE acres	73,705,401	75,489,540	31,707,995	101,215,299	
Percent of corn policies received participating in BYE	13%	16%	15%	26%	Avg of 4 States = 17%
Percent of corn acres under policy identified as BYE	78%	90%	85%	81%	Avg of 4 States = 83%
2007 as of 10/07/2007					
No. of 2007 corn policies received as on 9-10-07	64,148	54,642	19,703	32,012	17,055
Total corn acreage under policies received	12,456,559	10,209,759	4,475,902	7,608,366	
Corn premium for policies received	457,697,153	486,872,756	217,705,819	312,420,996	
Percent of policies received this year compared to last year at this time	98%	96%	94%	98%	Avg of 4 States = 97%

## Current Insider Issues

- \$100,000 Claim APH Reviews
- Large Claim Reviews
- PRF Expansion and PAYGO
- Loss Adjuster licensing
- Other BYE Crops/Initiatives
- SRA Negotiations

## Summary

- A large, generally well received, but expensive program marches forward
- Challenges abound – big and small
- New Programs, Options and Changes
- QUESTIONS????