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Using Risk Management for Environmental Improvement

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CROP INSURANCE
PRIVATE CHOICE
for
PUBLIC CONCERN
The Company’s Role
by
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Farmers --- Good News / Bad News

Good News---Farmers respond to incentives

Bad News---Farmers respond to incentives
Introduction

Title implies two points:
• Private choice and public concern do not always coincide
• Insurance companies have a role

Previous speakers
• Private markets can internalize externalities
• Insurance can encourage BMP adoption
The Company’s Role

Insurance companies are financial institutions that administer the payment of claims under contractual terms (policies) from pools of accumulated financial resources mostly gathered from policyholders.
The Company’s Role

Insurance companies pool risk.

Risks are taken only to the extent that there exists some volatility in the expected results of the risk pools.

Increasingly, crop insurance companies are being called upon to take more systemic risks.
The Company Functions

- Quantifies risk
- Diagnose causes of loss
- Indemnify insured losses
- Collect information
- Monitor results
The Three R’s

- Risk
- Revenues
- Rules

Goal #1

Goal #2
Rules can level or tilt the playing field
Economic incentives are powerful

Revenues

Disadvantaged

Advantage
The influence of risk on decisions is sometimes overlooked.
The Level of the Playing Field is The Sum of the Layers

- Risk
- Revenues
- Rules

Advantage  Goal #2
Private Choice
versus
Public Choice

• Most cases private choice coincides with public interests

But when they differ
• Private Choice for Public Concern
• Public Choice for Private Choice
Bt Refuge Compliance

Integrated Resistance Management protocol use insect refuges to delay insect resistance

• Bt Corn Refuges agreed at 20% of acreage
• Economic incentives to plant 100% of acres to Bt Corn (no refuge)
Refuge Insurance Levels Economics toward Compliance

- Refuge insurance protects refuge acres with same benefits as Bt technology
- Insurance premium is borne in the cost of Bt seed
- Insurance benefits provided only on compliant refuge
Bt Corn Refuge Insurance
“Solution”

• Better Refuges
• Private Choice
• System Approach
• TPA Monitoring
• Low Admin. Cost
• Registration

April 1, 2001
So far the seed industry has not endorsed the idea and are pursuing a pure “rule” solution via grower contracts and education.

Administrative costs do reduce short-term returns to Bt-corn users and Bt-Technology- owners.

Long term returns may be increased.
Conclusion

Decisions are influenced by three underlying effects. Insurance can be used to tilt the economic playing field toward public goals.

Risk

Revenues

Rules

Ignoring one or more layers leads to unintended consequences.
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A copy of this presentation may be received by contacting me at the above contact points or business card during the conference
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IGF Insurance Company

• Headquarters in Des Moines, IA
• 4th Largest Crop Insurance Writer 40 States
• 3rd Largest Crop-Hail Insurer
• High Growth ($300M in ‘98 vs. $36M in ‘93)
  (67% MPCI / 33% Private)
• Owned by Symons International Group
  (NASDAQ: SIGC)
• Recent acquisitions: CNA Agriculture, North
  American Crop Underwriters, Glenn Bros.