Crop Insurance Update
William J. Murphy
Administrator

USDA Agricultural Outlook Forum
Washington, DC
February 19, 2010
**Crop Year 2009 Summary of Business**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>$79.5 Billion</td>
</tr>
<tr>
<td>Acres insured</td>
<td>265 Million</td>
</tr>
<tr>
<td>Total premium</td>
<td>$8.9 Billion</td>
</tr>
<tr>
<td>Indemnity*</td>
<td>$4.5 Billion</td>
</tr>
<tr>
<td>Loss ratio*</td>
<td>0.50</td>
</tr>
</tbody>
</table>

*As of February 8, 2010

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### 2009 Crop Ranking by Liability

<table>
<thead>
<tr>
<th>Crop</th>
<th>Liability ($ Bil.)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$31.1</td>
<td>39.1%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$17.0</td>
<td>21.4%</td>
</tr>
<tr>
<td>Wheat</td>
<td>$9.9</td>
<td>12.5%</td>
</tr>
<tr>
<td>Nursery (FG&amp;C)</td>
<td>$3.2</td>
<td>4.0%</td>
</tr>
<tr>
<td>Cotton</td>
<td>$2.2</td>
<td>2.8%</td>
</tr>
<tr>
<td>Orange Trees</td>
<td>$1.2</td>
<td>1.5%</td>
</tr>
<tr>
<td>Rice</td>
<td>$1.1</td>
<td>1.3%</td>
</tr>
<tr>
<td>Potatoes</td>
<td>$1.1</td>
<td>1.3%</td>
</tr>
<tr>
<td>All Others</td>
<td>$12.8</td>
<td>16.1%</td>
</tr>
<tr>
<td>Total</td>
<td>$79.5</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
New SRA for 2011 reinsurance year

- Effective July 1, 2010
- RMA has given a first draft to companies
- Working with them now to get to an agreement that meets USDA goals

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SRA Renegotiation
Objectives

• Support producer access to insurance products
• Align A&O subsidy closer to actual delivery costs
• Provide a reasonable rate of return
• Equalize reinsurance performance across States
• Simplify provisions to make the SRA more understandable and transparent
• Enhance program integrity
Company revenue from FCIC

A&O and underwriting gains have risen dramatically since the late-1990s

Number of policies has actually declined since 2000

A&O subsidy  Underwriting gains  No. Policies

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• COMBO final rule due in February/March 2010

• Most impacted crops
  • Coarse grains (corn, grain sorghum, soybeans)
  • Small grains (barley and wheat)
  • Cotton
  • Rice
  • Canola/rapeseed
  • Sunflowers
One policy to provide:

- Yield protection
- Revenue protection w/ downside price protection
- Revenue protection w/ upside & downside price protection

Previous plans

- Crop Revenue Coverage
- Revenue Assurance
- Income Protection
- Indexed Income Protection

Replaced by

Revenue Protection
**Yield & Revenue Policies Combined (con’t)**

**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 commodity exchange values (established and additional price elections are no longer applicable) for the above commodities.

**Harvest prices** will apply to revenue protection only, not APH.

**Price elections** (established and additional) will continue for remaining APH plans.
New Pilot Programs

Actual Revenue History (ARH) – pilot revenue insurance plan for certain specialty crops

Pasture, Rangeland and Forage (PRF) – utilize various indexing systems to determine crop conditions
  • Rainfall Index - reflects how much precipitation is received relative to the long-term average
  • Vegetation Index – reflects changes in greenness of vegetation relative to the long-term average

Biotechnology Endorsement (BE) – premium rate discount for corn varieties containing certain traits demonstrated to reduce the risk of crop loss
Simplification – Simplify program administration, reduce complexity, and introduce greater clarity and consistency to underwriting methods and procedures

Efficiency – Achieve greater efficiencies in program administration, and reduce costs, resource requirements, and personnel demands necessary to administer the program

Integrity – Identify and address program vulnerabilities

Innovation – Integrate new technologies into crop insurance program
Future Developments – Concepts

- Technological innovation – Use **new technologies** (e.g., GIS & GPS technologies, remote sensing technologies, combine yield monitors) for data reporting, acreage measurements, etc.

- **Permanent land descriptors** with a permanent production history attached to the land
  - Tie soil attributes (e.g., soil typology) to specific land, thus improving the actuarial efficiency of the insurance offer to the producer
Future Developments - Concepts

- Greater use of farmer’s **own production history** in place of T-Yields
  - A move towards individualizing T-Yields to improve actuarial soundness, program integrity, and producer equity

- Better recognize **yield increases** arising from technological advances and improvements in production practices
  - Address ‘yield drag’ concerns, i.e., that a producer’s guarantee lags behind true production expectations given a positive yield trend
Priorities and Challenges

- SRA
- COMBO/ITM
- Pay Go – Continues to hinder RMA program expansion and improvements
- New product concept proposals and submissions
- Keeping a well-run program running well
Crop Insurance
Now, More Than Ever

• Bad weather, heavy losses and tough economic times make business risk management critical for producers.

• We will do our part to make sure the Federal crop insurance program produces a win-win-win-win-win scenario for producers, companies, consumers, and American taxpayers.

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