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Year in Review



By Keith Collins and Harun Bulut, NCIS

Year in Review is an annual feature of *Crop Insurance TODAY*® intended to provide an overview of the performance of crop insurance during the previous crop year.

Overview

After a series of punishing weather events in 2011 that led to record-high indemnities, 2012 turned out to be an even more remarkable year. The 2012 crop year saw record enrollment in crop insurance followed by a historic, wide-ranging drought. Total liability, indemnities and units indemnified exceeded prior records set in 2011 and 2008. Premium was the second highest ever, while the acres insured surpassed the levels in any previous year. At the time this article was written in mid April, the Federal Crop Insurance program loss ratio (gross indemnities divided by gross premium) for the 2012 crop year was estimated at 1.53. This loss ratio is far above those observed in the prior nine years and is the highest since the devastating flood year of 1993.

Indemnities under the Federal program are estimated at \$17 billion, providing essential relief to producers in the hard hit areas, enabling

them to pay creditors, remain in business and rebound with what is expected to be very high acreage planted to principal crops in 2013. Illinois producers received \$3.38 billion in indemnities, followed by producers in Iowa, \$2.00 billion; Nebraska, \$1.54 billion; Texas, \$1.41 billion; and Kansas, \$1.37 billion. The crop hail business program also had a record year, with the largest premium in the history of the program (\$956.7 million as currently reported to NCIS) and paid out \$701.4 million in losses, second highest in the history of the program after 2011.

Crop insurance companies endured large underwriting losses in for the 2012 crop year, the first underwriting loss for the industry since 2002 and the sixth since the modern program began in 1981. While crop insurance program costs reached a record-high level, a substantial portion of the total cost was absorbed by the companies as their share of the underwriting losses and by the \$4.1 billion of producer-paid

premiums. When final results are tallied, companies expect to have a negative double-digit rate of return on a pre-tax basis, erasing underwriting gains earned in previous years. Similarly, the share of underwriting losses incurred by the Federal Crop Insurance Corporation (FCIC) on its reinsurance operations will offset a considerable portion of its underwriting gains from recent years.

The drought had major impacts on crop production. After a favorable spring in most regions, lack of precipitation and high temperatures ushered in a “flash drought” over much of the Central and Southwest areas. At its peak in July, 62 percent of the continental United States was in at least moderate drought. The U.S. corn yield turned out to be 26 percent below USDA’s initial forecast and on par with the declines suffered in 1983 and 1988, making the drought the

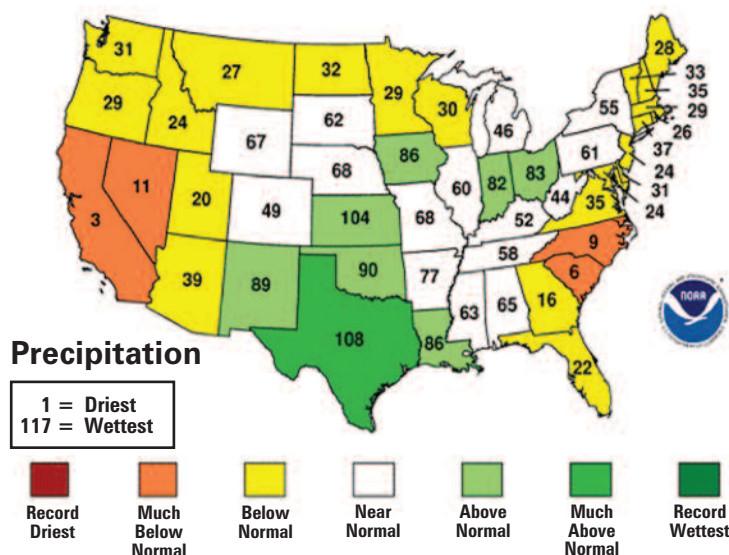
worst in 25 years for corn. While very good crop yields prevailed in much of the South and Southeast and higher grains and soybean planted area offset some of the drought losses, production of U.S. corn ended down 13 percent with soybeans down three percent, while grain sorghum increased 15 percent from a low prior level and U.S. wheat production was up 14 percent with record-tying yields due to better spring weather in the Southern and Northern Plains. Many crops outside the Midwest saw year-over-year production increases in 2012, such as peanuts, cotton, rice, sunflowers, dry beans, peas and lentils, while fresh and processing vegetable and citrus production were about unchanged from 2011.

The global marketplace saw an unusual drop in both expected global grain (wheat plus coarse grain) use and production in the 2012/13 marketing year. U.S. feed grain production losses combined with lower wheat production in Russia, Kazakhstan and Ukraine pulled global grain output down, while reduced U.S. use for feed and ethanol and lower wheat consumption in the recession-plagued European Union contributed to the drop in demand. Grain markets tightened further in 2012/13, reflected in a record-high index of prices received by U.S. farmers for all crops in 2012, continuing the period of strong prices that began in 2007. Real U.S. net farm income was down slightly in 2012 but still was well above the average of the 2000s.

Congressional action began on a new farm bill in 2012. However, the Presidential election and fiscal issues, including the Federal debt limit, expiring tax cuts and sequesters, dominated the policy stage and prevented passage of the new farm bill. Instead, the 2008 Farm Bill was extended temporarily through September 2013. Deficit reduction goals are ultimately expected to result in a reduced farm safety net. With farm income running at a high level, the policy focus has turned toward risk management. Congressional action in 2012 was directed at eliminating farm Direct Payments but maintaining the crop insurance program largely intact. New supplemental revenue programs designed to augment crop insurance were included in Senate and House versions of the farm bill developed in 2012. Congressional action on the farm bill is expected to resume in early-to-mid 2013.

This article expands on this brief overview by reporting on the 2012 crop insurance season

Figure 1. **Winter 2012 Precipitation by State**
National Climatic Data Center/NCSDIS/NOAA



and highlighting the significant events that affected the program. A brief discussion of weather conditions and their impacts on crop production is followed by a review of commodity markets and prices. The overall results of the Federal crop insurance program are presented followed by the crop-hail experience for the United States and Canada. Finally, crop insurance industry program and policy issues addressed in 2012 are examined.

Weather and Production

As harvest of the spring-sown crops was underway in the fall of 2011, wheat producers were busy seeding their 2012 winter wheat crop. Despite dry weather, conditions improved enough to permit area planted to increase by two percent to 41.4 million acres. Kansas, Oklahoma, Texas and North Dakota had a combined increase of nearly 1.8 million acres, whereas Nebraska and South Dakota, the soft red winter (SRW) wheat states in the Midwest, along with the white wheat areas of the Pacific Northwest had notable declines from 2011. By late November 2011, 52 percent of the winter wheat crop was rated good to excellent and 13 percent poor to very poor, with the Texas crop having the lowest rating, 40 percent poor to very poor.

The 2011/12 winter featured above average temperatures for much of the nation and was the fourth warmest winter on record. The National Climatic Data Center (NCDC) reported that 22 states had December-February temper-

atures that ranked among the ten warmest years. The jet stream generally remained north of the U.S.-Canadian border resulting in few cold air outbreaks. The December-February precipitation was about 12 percent below average for the nation (Figure 1). California had the third driest winter on record, with precipitation 7.82 inches below average. The Northern Plains, Upper Midwest and Eastern Seaboard also had a drier-than-average winter. The warm and dry conditions limited snow across much of the nation. Some relief came to the drought stricken Southern Plains as it had a wetter-than-average winter with Texas having its tenth wettest winter, 2.5 inches above average. North Carolina had its ninth driest winter and South Carolina had its sixth driest.

Warm conditions continued into the spring, with the spring of 2012 being the warmest on record. The U.S. average temperature was 5.2°F, or nine percent, above the average of the 20th century. All three months of the March-May season ranked among the five warmest and 34 states had record warm temperatures for the spring. Many states, mainly in the Midwest, had spring temperatures more than 7.0°F above average. Only the Pacific Northwest was near normal. U.S. spring precipitation was only slightly below average; however, there were marked differences across regions (Figure 2). The Pacific Northwest had multiple storms, giving Oregon and Washington among their ten wettest springs. The Upper Midwest was also wetter

Figure 2. **Spring 2012 Precipitation by State**
National Climatic Data Center/NCSDIS/NOAA

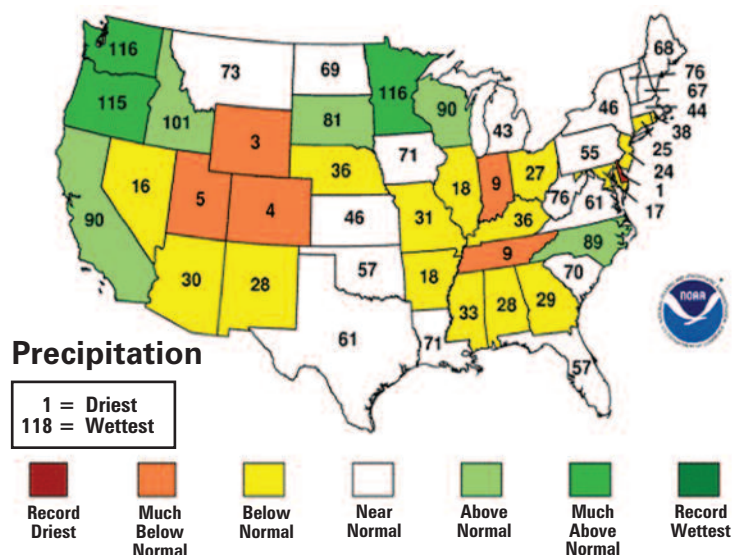
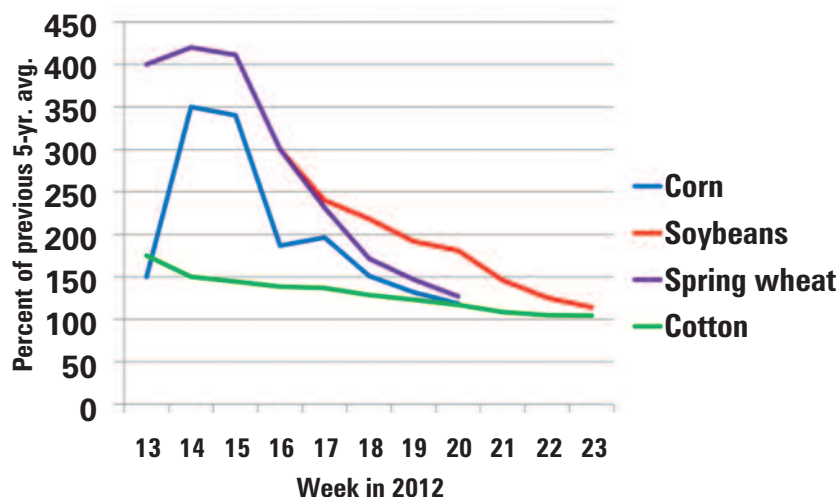


Figure 3. **Planting Progress:**
Share of Crop Planted Compared with 2007-11



than average, while the central Rockies and the Ohio Valley were below average. Spring in Indiana and Tennessee was among the top ten driest. The warm and dry weather in the central states foreshadowed the severe drought which affected much of the nation in during the summer.

The warm spring with near normal precipitation in the Southern Plains brought small grains out of dormancy earlier than normal, speeded maturity, resulted in an early harvest and helped boost the 2012 winter wheat production to 1.65 billion bushels, 10 percent above 2011. While the onset of renewed drought dur-

ing May reduced the condition of wheat somewhat in the Southern Plains, abandonment was down and yields were the second highest on record. The Hard Red Winter (HRW) wheat crop was 29 percent higher than 2011's drought reduced production, as Texas, Oklahoma and Kansas harvested 80 percent of planted acres compared with only 68 percent in 2011. SRW and white wheat production were down eight percent and 18 percent respectively, as planted and harvested acres and yields were down for each compared with 2011.

The warm and generally dry spring enabled producers to begin spring field work and

planting much earlier than normal (Figure 3). By April 1, three percent of the U.S. corn crop had been planted and by April 29, 53 percent was planted, 26 percentage points ahead of the five-year average pace. With strong prices and good planting conditions, 97.2 million acres of corn were planted, six percent more than 2011 and the highest since 1937. Plantings of other feed grains also increased year over year: sorghum, up 14 percent; barley, up 42 percent; and oats, up 11 percent. Similarly, by June 3, soybean planting was 20 percentage points or more ahead of normal in 11 of the 18 major States. Soybean planted area ended up at 77.2 million acres, a three percent increase, and the third highest on record. Sunflower seedlings increased as well, up 24 percent, and peanut acreage rose 44 percent. Spring wheat benefited from the favorable spring weather with 74 percent of the crop planted by April 29, 42 percentage points ahead of the five-year average. With prices low relative to competing crops, upland cotton planted area declined to 12.1 million acres, a 16-percent drop, while rice area was nearly unchanged from 2011. Overall, with very strong prices for major crops in 2011/12 and favorable planting conditions, 326 million acres were planted to major crops in 2011, 11.2 million more than in 2011.

After 2011's Southwest drought, Florida freezes, Mississippi River floods and the East's Hurricane Irene, the rapid spring planting and acreage increases seemed to presage a more bountiful 2012. The optimism soon turned, as the summer of 2012 brought continued warmer-than-average and dry weather for much of the country. The U.S. average temperature for June-August was 73.8°F, 2.6°F above the average of the 20th century and the second warmest summer on record. The period from August 2011 through July 2012 was the nation's warmest consecutive 12 months on record, while U.S. precipitation was the 14th lowest on record. The warm temperatures and lack of precipitation resulted in a drought that NOAA described as similar to those in the 1950s. At its peak in July, 62 percent of the continental United States was in at least moderate drought (Figure 4). The drought was centered in an area from the Rocky Mountains through the Great Plains and into the Midwest. The West Coast and Gulf Coast were wetter than average, with Florida having its wettest summer on record.

The drought hammered corn, soybeans, pastures, rangeland and other crops. The pace of the drought's progress was so rapid it was termed a "flash drought." In Mid-May, the drought monitor indicated a small part of the Midwest was abnormally dry. At that time, USDA was forecasting a record corn yield of 166 bushels per acre, influenced by the early planting progress. On June 3, 72 percent of the U.S. corn crop was rated good to excellent (Figure 5). But by the start of July, most of the Midwest was in severe or extreme drought, which continued through the critical reproductive stage. On July 1, U.S. corn was rated only 48 percent good to excellent. The July rating was the lowest for that week since 1988 when 23 percent of the crop was reported in good to excellent condition. By July 29, only 24 percent of corn acreage was good to excellent.

The U.S. corn yield turned out to be 123.4 bushels per acre, 26 percent below USDA's initial forecast and on par with the declines suffered in 1983 and 1988, making the drought the worst in 25 years for corn (Table 1). Corn production totaled 10.8 billion bushels, down 13 percent from 2011. In the Midwest, some corn was cut early for silage or hay as major states saw yield declines of 30 bushels or more from 2011, while some Southern and Southeastern states saw record-high yields. The drought reduced sorghum yields, but production increased by 15 percent due to a large increase in planted area. Soybean production was 3.01 billion bushels, down three percent, with the impact of the drought in the Midwest mitigated by August

Figure 4. **U.S. Drought Monitor**
July 31, 2012–Valid 7 a.m. EDT

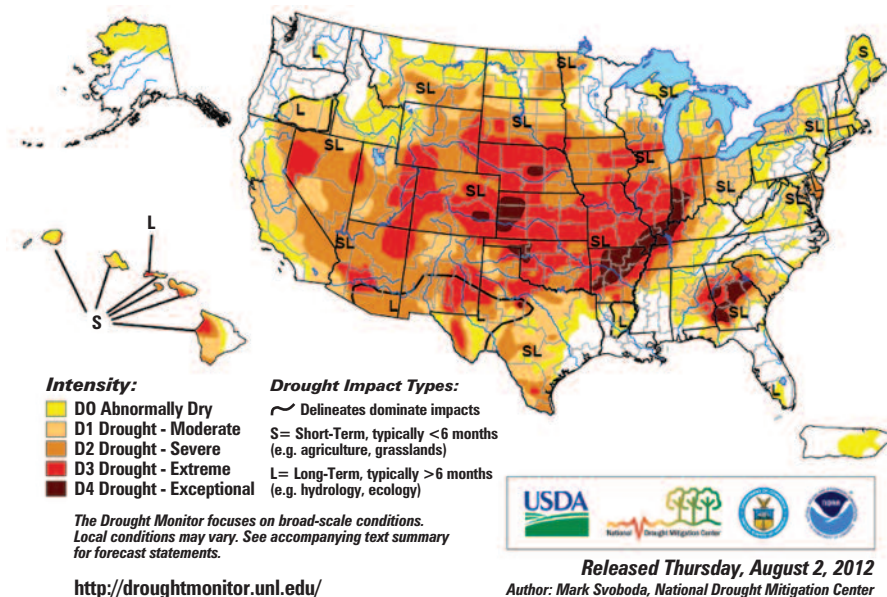


Figure 5. **U.S. Crop Conditions:**
Share of Crop Rated Good or Excellent

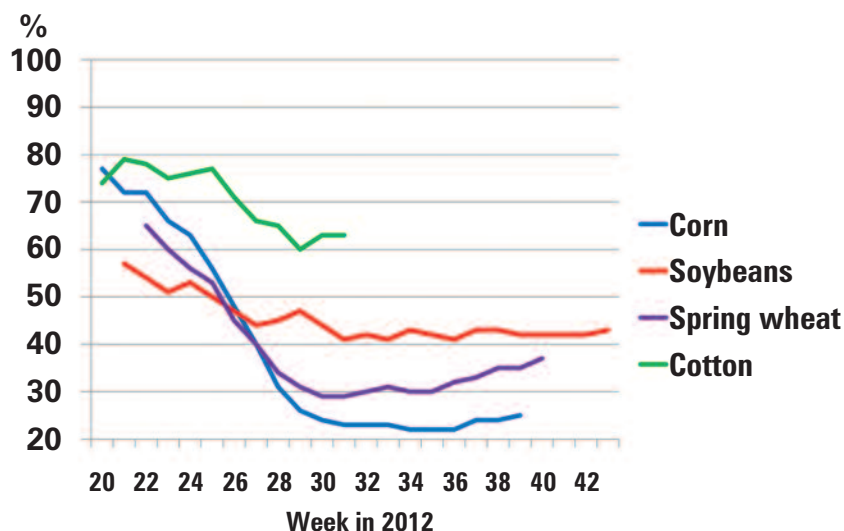


Table 1. **Corn Yield per Harvested Acre Compared with Trend**

Year	Yield Deviation from Trend
1983	-22.3%
1988	-25.6%
1991	-9.0%
1993	-18.1%
1995	-10.4%
2002	-7.5%
2011	-6.0%
2012	-22.1%

Deviations calculated from a linear trend estimated using data for 1960-2011.

rains and record-high yields in the South and Southeast. U.S. wheat production, at 2.27 billion bushels, was up 14 percent from 2011, with yields of 46.3 bushels per acre tying the record high of 2010. Early planting and favorable weather in the Northern Plains boosted spring wheat production by 19 percent over 2011. Many crops outside the Midwest saw year-over-year production increases in 2012, including oats, up 19 percent; barley, up 41 percent; peanuts, up 84 percent; rice, up eight percent; canola, up 59 percent; sunflowers, up 37 percent and upland cotton, up 10 percent; and tobacco

up 27 percent. Fresh and processing vegetable production was about unchanged from 2011, dry beans, peas and lentils were up and citrus production remained stable.

Pasture and range conditions reached a record-high 59 percent very poor to poor during five consecutive weeks in August and early September (data only dates since 1995). Production of hay was down nine percent from the drought-reduced level in 2011 and was the lowest U.S. hay production since 1964. Late summer rains helped pastures and crops across the South, East, and lower Midwest.

Figure 6. World Grain Production and Use

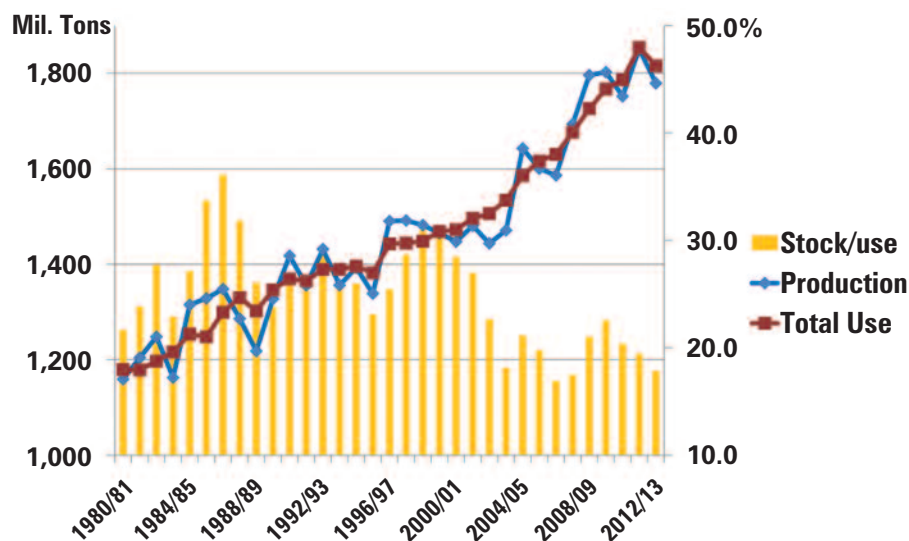
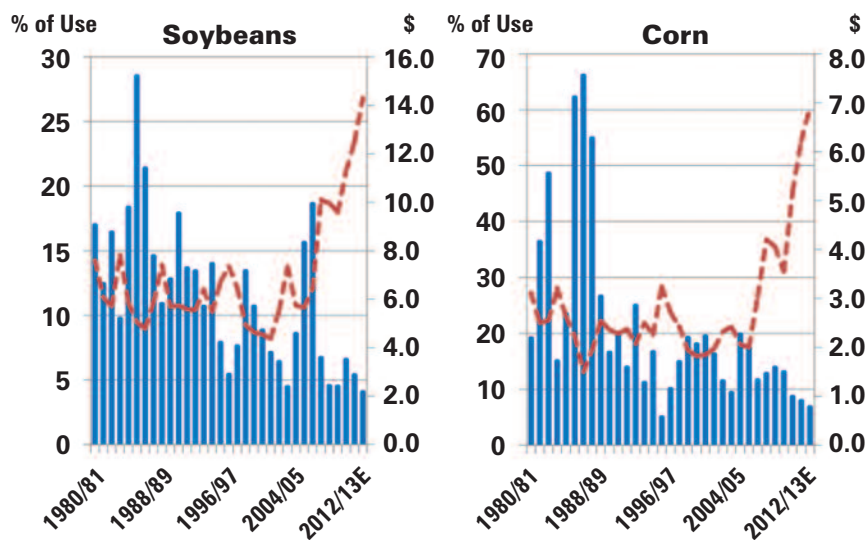


Figure 7. U.S. Stocks as a Share of Total Use and Prices



As this article is being written in early 2013, NOAA reported that the first two months of 2013 were warmer than average for the contiguous United States. U.S. precipitation for January-February was only slightly below average, although California had its driest January-February on record, about 80 percent below average. Much of the West was very dry with below-normal snowpack, except in Oregon and Washington. As of February 26, 54 percent of the lower 48 states remained in drought, particularly in the Great Plains states and the West. Drought conditions were improving in the Southeast as winter was wetter than average. The seasonal drought outlook from NOAA's Climate Prediction Center for late March-June

2013 projects drought conditions to improve across the Upper Mississippi Valley and Ozarks, much of the Dakotas and Minnesota. Some improvement is forecast for the central and southern Great Plains. Prospects for improvement decline across the southern high Plains and Texas. Drought is forecast to persist for much of the West and expand across northern Califor-

nia and southern Oregon.

Information for this section was obtained from the National Climatic Data Center at the National Oceanic and Atmospheric Administration (NOAA) "State of the Climate National Overview for Annual 2012," published online, December 2012, and available at: www.ncdc.noaa.gov/sotc/national/2012/13; NOAA's publication of "The Seasonal Drought Outlook," published online and available at www.cpc.ncep.noaa.gov/products/expert_assessment/seasonal_drought.html; NOAA's "National Overview-February 2013," published online and available at: www.ncdc.noaa.gov/sotc/national/2013/2; and USDA publications, including "Crop Production Summary," and various issues of "Crop Production," the "Weekly Weather and Crop Bulletin," the "World Agricultural Supply and Demand Estimates Report," the "Fruit and Tree Nuts Outlook" and the "Vegetable and Pulses Outlook."

Commodity Markets and Prices

The global economy grew by 3.2 percent in 2012, slower than 2011's 3.9 percent, as financial problems in the Euro area slowed developed country growth while slower growth in China, India, Brazil and a number of other countries contributed to slower expansion in developing economies. Even so, global agricultural demand remained fairly strong. U.S. agricultural exports declined slightly in FY 2012 compared with FY 2011, reflecting reduced U.S. feed grain supplies and intense competition from South America. Crop prices reached record highs and U.S. net farm income adjusted for inflation remained strong at the third highest level since 1960, although down somewhat from 2011, primarily due to lower corn, dairy and hog production and higher expenses.

Figure 6 shows the unusual drop in global grain (wheat plus coarse grain) use expected for the 2012 marketing year resulting from the sharp drop in global grain production. Combined with already low stock levels, the cutback in available supplies necessitated demand rationing in the global grain market. The large decline in U.S. corn production and much lower wheat production in Russia, Kazakhstan and Ukraine were major factors in reducing

Table 2. Index of Farm Prices Received by Producers
All Crops, 1990-92 = 100

2005	2006	2007	2008	2009	2010	2011	2012
110	120	142	169	151	153	204	222

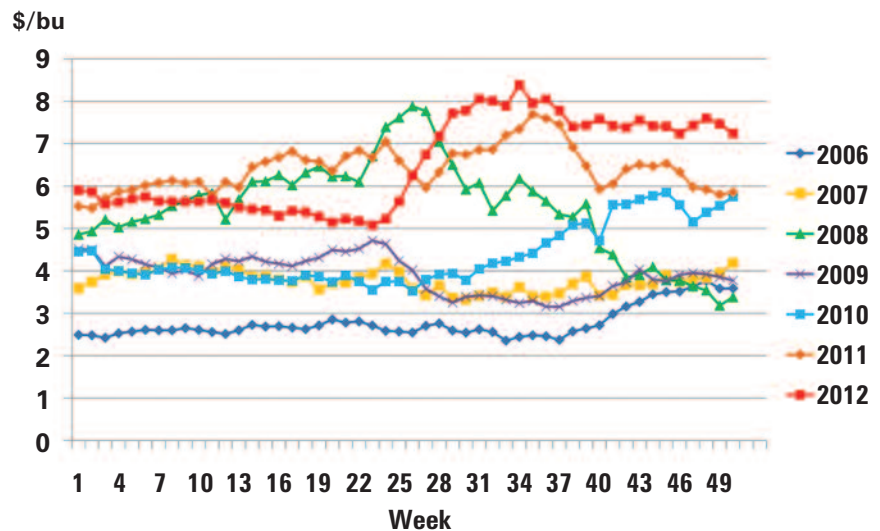
Source: NASS "Agricultural Prices," various issues

global grain production. Much of the decline in grain use was the result of lower wheat use in the European Union and reduced feed grain use in the United States. With short supplies, grain markets tightened even further, with grain carryover stocks as a percent of use expected to decline for the fourth consecutive year in the 2012/13 marketing year. Global oilseed production increased in 2012 as Brazil and Argentina had very large crops, and the ratio of global carryover oilseeds stocks to use is expected to increase for the marketing year.

With the drought dominating production of major field crops, farm level and futures prices increased sharply for grain and oilseeds during 2012. Table 2 shows the index of prices received by farmers for all crops reached a record high of 222 in 2012. This increase came on top of the continuing sharp increases that began in 2007.

Figure 7 summarizes what has happened during the 2012/13 marketing years for corn and soybean markets—two crops that accounted for 60 percent of total crop insurance premium in 2012. Carryover stocks as a percent of the year's total use measure the tightness of the market and correlate with price movements. Corn carryover stocks were projected by USDA (early April 2012) to be only 6.8 percent of total use of corn at the end of the 2012/13, marketing year, the second lowest since at least 1960. Stocks would have been even lower had U.S. corn use not contracted sharply, with exports down an estimated 48 percent, feed and residual use down three percent and ethanol use off by nine percent. Soybean stocks are expected to be only 4.1 percent of use, an all-time low. Reflecting the extremely tight supplies, corn farm prices are expected to average a record-high \$6.90 per bushel in 2012/13, compared with the previous record of \$6.22 in 2011/12, and the third consecutive year of a new record high. Soybean prices are expected to average a record \$14.30 per bushel, compared to the prior record of \$12.50 set in 2011/12. The all-cotton average farm price is expected to be 71.5 cents per pound, well below the 2011/12 average of 88.3 cents, as production bounced back from the low level in 2011 caused by large losses in Texas and Oklahoma due to the Southern Plains drought. The all-wheat farm price for 2012/13 is estimated at \$7.80 per bushel, a record, and up from \$7.24 a year earlier. For rice, despite higher production,

Figure 8. Weekly Corn Futures Prices
Life of the Dec. Contracts 2006-2012



stocks are expected to decline and prices rise to an estimated \$14.90 per cwt, up from \$14.50 a year earlier.

With corn being the most valuable U.S. field crop produced and accounting for nearly one-third of U.S. planted acreage, corn prices heavily influence prices of other field crops and livestock. Figure 8 shows this important price, illustrating the pattern of the December futures contract prices on a weekly basis from 2006 through 2012. During 2011, futures prices increased as the U.S. corn crop appeared to be well below trend. Prices tailed off in the second half of the year as markets adjusted and foreign grain production was strong. Futures prices continued to trend down during the first half of 2012 with large corn planted acreage and favorable spring planting progress. A large crop was expected and a \$4.60 per bushel average

farm price was forecast by USDA in May 2012 for the 2012 crop. The story quickly changed as the onset of the drought and its rapidly mounting severity caused corn futures to spike from near \$5.00 per bushel in mid-June to a peak of \$8.49 by early August. As demand fell in the face of high prices, market prices began trending down but remained above \$7.00 per bushel as the December contract expired.

Table 3 provides the insurance base prices for revenue policies for major crops over the past several years. Base prices for the 2012 crops were generally strong, reflecting the low stocks and above-average farm prices for most commodities that prevailed in 2011 and carried into early 2012. The 2011 U.S. wheat crop was down nine percent, and despite a large increase in foreign production, the U.S. farm-level wheat price for the 2011 crop came in at a record high,

Table 3. Revenue Policy Base Prices^{1/}

	2008	2009	2010	2011	2012	Percentage change
Wheat, winter (\$/bu) (KCBOT)	5.88	8.77	5.42	7.14	8.62	21%
Wheat, spring (\$/bu)	11.11	6.20	5.43	9.89	7.84	-21%
Corn (\$/bu)	5.40	4.04	3.99	6.01	5.68	-5%
Soybeans (\$/bu)	13.36	8.80	9.23	13.49	12.55	-7%
Upland cotton (\$/lb)	0.77	0.55	0.72	1.15	0.94	-18%
Rice (\$/cwt) (AR, MS, TX for 2011 & 2012)	14.40	13.10	14.00	16.10	14.70	-9%

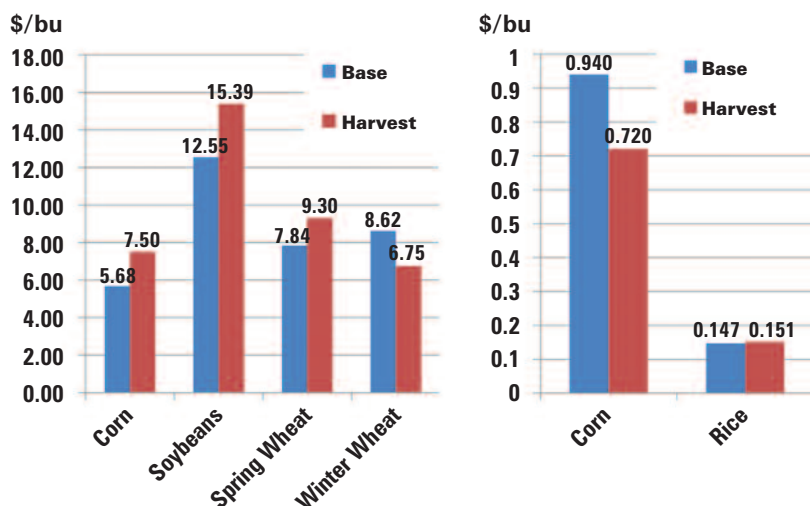
^{1/} Revenue Protection for 2011 and 2012 and Revenue Assurance for prior years.
Source: Various RMA Manager's Bulletins

Table 4. Revenue Policy Implied Price Volatilities^{1/}

	2008	2009	2010	2011	2012	Percentage change
Wheat, winter (\$/bu)(KCBOT)	0.24	0.33	0.27	0.33	0.26	-21%
Wheat, spring (\$/bu)	0.33	0.25	0.24	0.25	0.19	-24%
Corn (\$/bu)	0.30	0.37	0.28	0.29	0.22	-24%
Soybeans (\$/bu)	0.31	0.31	0.20	0.23	0.18	-22%
Cotton (\$/lb)	0.20	0.27	0.21	0.40	0.19	-53%
Rice	0.15	0.22	0.19	0.22	0.14	-36%

^{1/} Revenue Protection for 2011 and 2012 and Revenue Assurance for prior years.
Source: Various RMA Manager's Bulletins

Figure 9. Prices for 2012
RP and RP-HPE Plans of Insurance



helping to push the 2012 winter wheat base price to \$8.62 per bushel, close to 2009's record-high base price. Large acreage and production was expected for most of the spring-planted 2012 crops, but with stock levels generally tight, base prices declined only modestly from their 2011 levels. The largest declines were for spring wheat and cotton. The spring wheat market was influenced by very large harvests in the Black Sea region the prior fall and a large increase in 2012 winter wheat planted area, which helped account for the 21 percent decline in the 2012 base price. For cotton, the expectation was for higher U.S. production, record-high world stocks and sharply lower Chinese imports. These factors contributed to the 18-percent drop in the cotton base price for 2012.

Implied volatilities calculated from options contract prices are used in rating Revenue Protection (RP) coverage. Higher volatility

factors result in higher premium rates, provided other factors affecting the premium rates remain the same. Table 4 shows implied volatility factors for major crops. In 2011, volatilities increased relative to 2010 levels but still did not exceed 2009 levels with the exception of cotton. In cotton, the volatility factor almost doubled compared with the previous three years. With most major crop prices stabilizing over the 2011/2012 winter and large production and lower prices expected for 2012, volatilities for 2012 were down sharply for all major crops.

The left panel of Figure 9 shows the insurance base and harvest prices for the 2012 RP and RP-HPE plans of insurance for the major crops (corn, soybean, winter and spring wheat). Corn, soybean and spring wheat harvest prices all exceeded base prices, while winter wheat and cotton had harvest prices below

base prices, and the rice harvest price was only slightly above its base price.

The winter wheat harvest price reflects market conditions after the 2012 wheat crop was in and before the brunt of the 2012 drought was felt. Hard red winter wheat cash prices in Kansas City fell through the first half of 2012 reaching a monthly average low level in April at \$7.11 per bushel. However, the July average jumped to \$9.13 per bushel. The July futures contract was in the range of \$6.50 per bushel in June and closed in July at \$8.41. The U.S. drought and a sharp drop in production in the Black Sea exporting region stimulated the price surge which was reflected in the spring wheat harvest price, which exceeded its base price, unlike winter wheat. The reduced production of major Midwest crops explains the harvest price increase for corn and soybeans. Cotton production increased in 2012 with lower abandoned acres in Texas and Oklahoma and very high yields per acre in Southern and Southeastern states. Carryover stocks were expected to increase by nearly 60 percent, accounting for the decline in harvest price relative to base price. Production of rice in 2012 fell short of use for the second year in a row, reducing carryover stocks and resulting in a slight uptick in harvest price compared with base price.

Information for this section of the article was obtained from the Risk Management Agency, National Agricultural Statistics Service, USDA Foreign Agricultural Service's PSD "Production, Supply and Distribution" Online website at www.fas.usda.gov/psdonline/psdQuery.aspx, USDA's "World Agricultural Supply and Demand Estimates Report", the commodity outlook reports of USDA's Economic Research Service, and data from Barchart.

Federal Crop Insurance Program Experience

Table 5 shows that 2012 total liability and indemnities exceeded the prior record levels set in 2011. Premium written was the second highest ever and the acres insured surpassed the levels in any previous year. The crop insurance program loss ratio (gross indemnities divided by gross premium, as of April 22, 2013) for the 2012 crop year is estimated at 1.53. This loss ratio, driven by the historic 2012 drought, is well above those observed in the previous eight years and is the highest since the flood-affected 1993 level.

Results differed for the various insurance

Table 5. **Federal Crop Insurance Program, Gross Basis (Mil. \$)**

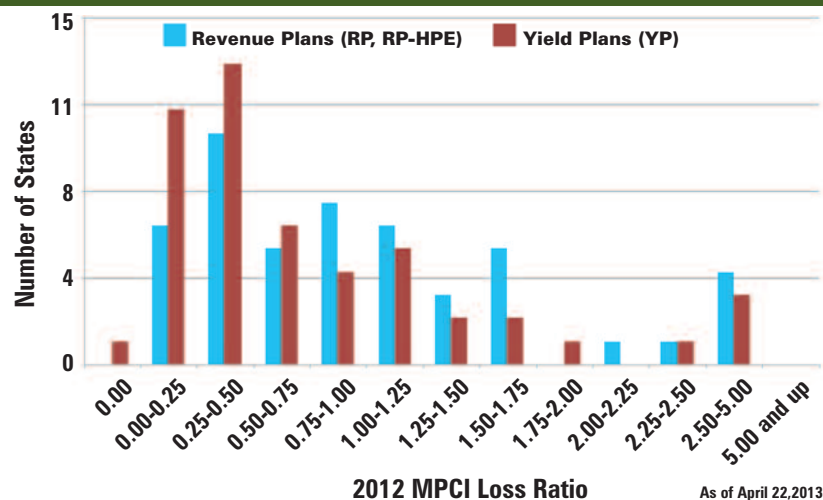
Crop Year	Liability	Premium	Farmer-Paid Premium	Indemnity	Insured Acres (Mil.)	Gross Underwriting Grain	Loss Ratio
2004	46,602	4,186	1,709	3,210	221	976	0.77
2005	44,259	3,949	1,605	2,367	246	1,582	0.60
2006	49,919	4,580	1,898	3,504	242	1,076	0.77
2007	67,340	6,562	2,739	3,548	272	3,014	0.54
2008	89,897	9,851	4,160	8,680	272	1,171	0.88
2009	79,549	8,950	3,524	5,218	265	3,732	0.58
2010	78,083	7,593	2,883	4,250	256	3,344	0.56
2011	114,235	11,970	4,508	10,855	266	1,112	0.91
2012 ^{1/}	116,963	11,088	4,127	16,992	282	-5,904	1.53

^{1/} As of April 22, 2013; data not complete
Source: RMA Summary of Business Reports

plans. As of April 22, 2013 the U.S. loss ratio for individual farm revenue protection plans, including the Revenue Protection (RP) and Revenue Protection-Harvest Price Exclusion (RP-HPE), which insure against declines in production, price or both, was 1.65, a bit higher than the current U.S. loss ratio for all plans of 1.53. The rainfall and vegetation index plans for pasture, range and forage had loss ratios of 1.03 and 2.67, respectively. The Yield Protection (YP) and Actual Production History (APH) plans, which both insure against a loss of production, had a combined loss ratio of 0.84, with YP alone having a loss ratio of 1.03. Revenue plans accounted for a higher share of total premium in the key drought-affected states than yield plans, thus explaining their higher loss ratio. Among the group risk plans, Group Risk Income Protection - Harvest Price Option had a loss ratio of 3.00, while Group Risk Income Protection had 2.88 and the Group Risk Plan was 1.49. These area plans had a combined loss ratio of 2.89. All remaining plans of insurance had an overall loss ratio of 0.73. For the 2012 crop year, 35 percent of units earning premium were indemnified compared with 29 percent in 2011, 18 percent in 2010, 22 percent in 2009 and 35 percent in 2008.

The 2012 crop year will result in a gross underwriting loss, now estimated at nearly \$6 billion, the first such loss since 2002. The crop insurance companies share this loss with the Federal Crop Insurance Corporation with the final amounts determined under the terms of the Standard Reinsurance Agreement. This will

Figure 10. **Number of States with Loss Ratios in the Indicated Range 2012**



be the sixth year of company underwriting losses since the modern program began in 1981. Simultaneously, Federal Crop Insurance program costs reached a record-high level in 2012. Final program costs will be equal to total indemnities less farmer-paid premiums plus administrative and operating expense payments to the companies plus company underwriting gains (or minus company underwriting losses). When final results are tallied, companies expect to have a negative double-digit rate of return on a pre-tax basis, erasing underwriting gains earned in previous years. Similarly, the share of underwriting losses incurred by the Federal Crop Insurance Corporation (FCIC) on its reinsurance operations will offset a con-

siderable portion of its underwriting gains from recent years.

Figure 10 shows the distribution of 2012 loss ratios across states for RP, RP-HPE and YP plans of insurance. Loss ratios were at most 0.75 in the majority of states, 21 out of 48 states for the two revenue plans and 31 out of 49 for YP. Nevertheless, loss ratios exceeded 1.00 in 20 states for the revenue plans and 14 states for YP. Compared with 2011 and 2010, there were more states experiencing severe losses for 2012 for both plans.

Figure 11 illustrates the loss ratios by state for the RP, RP-HPE and YP plans of insurance. Note that Hawaii had no premiums written for these plans in 2012, while New Hampshire

Figure 11. State Loss Ratios by State, 2012

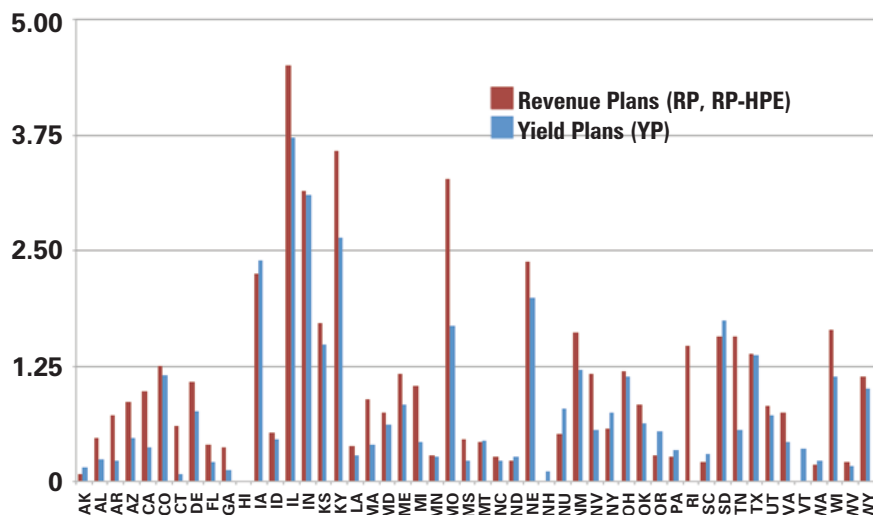
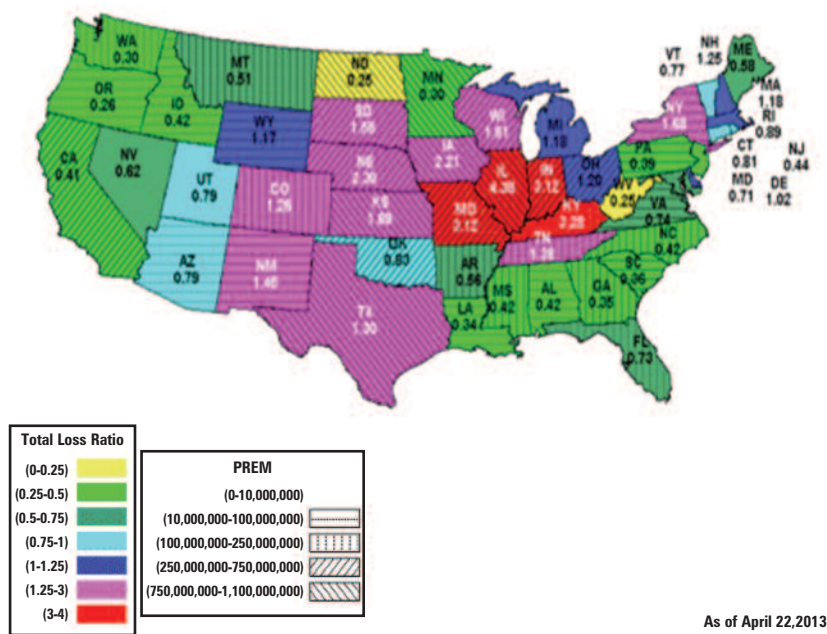


Figure 12. 2012 MPCl Premium and Loss Ratios
All Plans Combined



As of April 22, 2013

Factors contributing to the higher loss ratio for yield plans in these states include the use of the RP-HPE plan (a less expensive alternative to RP) where higher prices at harvest mitigate some of the yield losses (providing a so-called “natural hedge”).

The map in Figure 12 shows gross loss ratios by state and highlights the concentration of the 2012 drought in the Plains and Mid-West states. In 20 states, shown in dark blue, purple or red, the loss ratio exceeded the statutory target (1.00) for establishing premium rates. Those states together accounted for \$7.1 billion in gross premium, 64 percent of the U.S. total. The seven states in dark blue are those with loss ratios exceeding 1.00 and less than or equal to 1.25: Colorado, Delaware, Massachusetts, Michigan, New Hampshire, Ohio and Wyoming. The ten states in purple are those with loss ratios above 1.25 and less than or equal to 3.00: Indiana, Iowa, Kansas, Nebraska, New Mexico, New York, South Dakota, Tennessee, Texas and Wisconsin. Finally, the highest loss ratio was 4.38 in Illinois, followed by 3.28 in Kentucky and 3.12 in Missouri, which are shown in red. The total payouts to the states in blue, purple and red are estimated at \$15.4 billion, 91 percent of the total U.S. indemnities. The remaining 9 percent of estimated indemnities went to the states with loss ratios below 1.00.

Tables 6 and 7 present the top and bottom five states and crops ranked by loss ratio and the top five states ranked by indemnities. The loss ratio rankings reflect the brunt of the drought in the Midwest and the better weather just to the North in Minnesota and North Dakota and the excellent growing conditions in the Pacific Northwest. The crop list is varied, highlighting the damage done to corn as well as the good turnout for many specialty crops, such as walnuts and pistachios. Table 7, the list of top states and crops by indemnity paid reflects the states and crops with large planted acreages and high loss ratios, such as corn and soybeans in the Midwest and cotton in Texas. Corn accounts for two-thirds of total indemnities.

Information for this section of the article was obtained from Summary of Business reports released by the Risk Management Agency.

U.S. Crop-Hail Experience

For the United States, crop-hail insurance generally refers to policies in which direct damage from hail is the primary cause of loss.

had no premiums written for these revenue plans. Of the 50 states shown, a majority (36) had a higher loss ratio for revenue plans than yield plans, which is in contrast with 2011, 2010 and 2009, but similar to 2008, albeit for a different reason. In 2008, large indemnities on revenue plans were triggered primarily by a large decrease in prices at harvest. In 2012, deep production losses caused harvest prices to increase (except winter wheat and cotton; see Figure 9). The price increases triggered larger indemnities for revenue plans because

of the harvest price protection in the RP plan (which uses the higher of the harvest or base insurance price to establish the guarantee). In the remaining 12 states, the yield plan loss ratio was higher than that of the revenue plans. Among these 12 states, only Iowa and South Dakota had loss ratios that were above 1.00, while the remaining states had loss ratios well below 1.00. These latter states include Arkansas, Washington, Oregon, North Dakota, Montana, Vermont, Pennsylvania, New York, New Jersey and South Carolina.

Table 6. Highest and Lowest Loss Ratios by State and Crop
(Ex. Alaska and Hawaii; Crop with Minimum 25,000 Insured Acres; as of 4/22/2013)

By State				By Crop			
5 Highest		5 Lowest		5 Highest		5 Lowest	
Illinois	4.381	North Dakota	0.252	Corn	2.66	Citrus I	0.004
Kentucky	3.283	West Virginia	0.253	Fresh Market Tomatoes	2.49	Walnuts	0.054
Missouri	3.122	Oregon	0.256	Popcorn	2.25	Citrus II	0.066
Indiana	3.118	Washington	0.296	Millet	2.21	Pistachios	0.081
Nebraska	2.304	Minnesota	0.296	Apples	1.95	Prunes	0.126

In addition to hail damage, many policy forms carry endorsements for additional perils. For the most part, the added perils include wind and fire, although there are exceptions. For the purpose of this article, results will be reported for all losses on hail policies, including the experience of NCIS non-member companies not included in NCIS' *Annual Statistical Summary* reports.

Premium for 2012 as currently reported to NCIS was \$956.7 million, the largest in the history of the program and up from \$843.2 million in 2011, which provided more than \$39 billion in privately insured crop-hail insurance protection for U.S. farmers. This coverage proved valuable in 2012 as it paid out \$701.4 million in losses, the second highest amount in the last nine years (Table 8), after 2011. The program had the largest hail losses in its history in 2011 (influenced extensive hail as well as losses in production plans), and 2011 became only the second year since 1948 in which the countrywide loss ratio, defined as paid losses divided by premium written, exceeded 1.00. In 2012, the program loss ratio reverted back to below 1.00 and is estimated at 0.73; the production plans loss ratio performance has not yet been completely determined due to processing issues but was at 0.65 at the time this article was written.

Large storms contributed importantly to losses for the year. In terms of statewide losses from storms on a particular day (for hail and wind perils), Minnesota took the top spot with \$29.6 million on June 19. That was followed by Nebraska with \$20.3 million on May 27 and Iowa with \$14.7 million losses on July 25. The losses from top ten storm days at a state level amounted to \$120.2 million, which was less than those in 2011 and 2009 (\$259.9 million

Table 7. Highest Indemnities by State and Crop
(Ex. Alaska & Hawaii; Crop with Minimum 25,000 Insured Acres; as of 4/22/2013)

By State (\$)		By Crop (\$)	
Illinois	3,384,048,944	Corn	11,518,044,624
Iowa	1,995,172,716	Soybeans	2,101,610,218
Nebraska	1,540,640,520	Cotton	1,080,348,806
Texas	1,408,959,313	Wheat	753,350,484
Kansas	1,367,093,304	Grain Sorghum	401,487,684

Table 8. U.S. Crop-Hail Results, all Perils

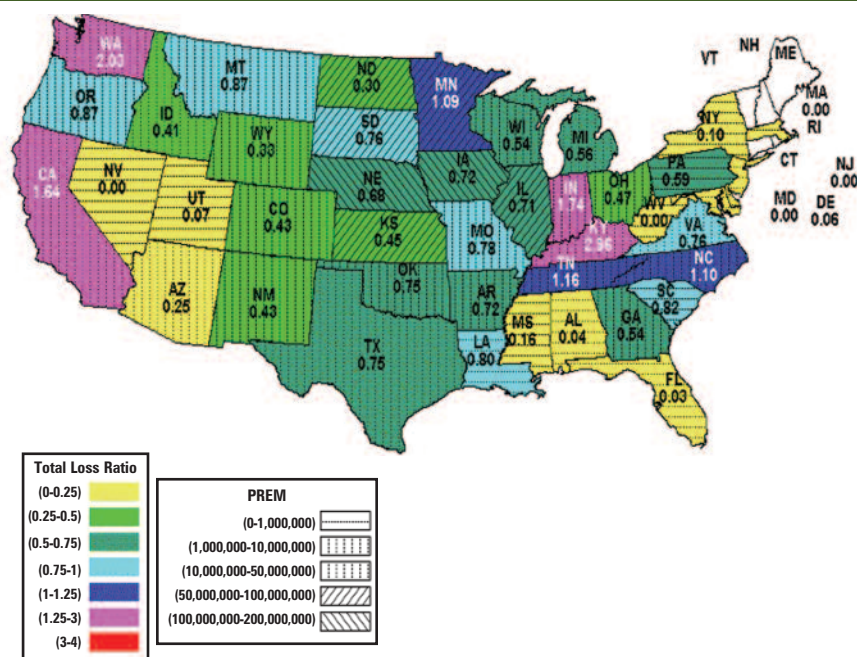
Crop Year	Liability (Mil. \$s)	Premium (Mil. \$s)	Losses (Mil. \$s)	Loss Ratio
2004	15,186	427.5	245.9	0.58
2005	15,017	424.8	186.8	0.44
2006	15,545	405.2	203.2	0.50
2007	19,392	489.6	235.2	0.48
2008	27,540	669.4	555.1	0.83
2009	25,493	621.3	565.9	0.91
2010	27,170	682.2	460.4	0.67
2011	36,691	843.2	974.5	1.16
2012 ^{1/}	39,320	956.7	701.4	0.73

^{1/} As of April 3, 2013; data not complete
Source: Adjusted Verified Totals for member companies combined with the data from non-members.

and \$176.5 million, respectively) but much more severe than \$78.2 million in 2010 and \$89.2 million in 2008. Regarding county level losses in 2012 from major storm events on a particular day (also for hail and wind perils), Minnesota took the top four spots, all of which occurred on the same day, June 19. The largest

occurred in Nicollet County, resulting in more than \$5.8 million paid out to farmers, followed by \$5.4 million in Sibley County, \$5.0 million in Redwood County, \$4.6 million in Renville County. The fifth highest one-day storm in 2012 occurred on September 21 in Hendricks County, Indiana. The total of the top five

Figure 13. 2012 U.S. Crop Hail Premium and Loss Ratios
All Crops and Plans Combined



county losses was above the corresponding levels in 2010 and 2008 (by 22 percent and nine percent, respectively) but less than half of the levels in 2011 and 2009. The next five largest county losses occurred in South Dakota, Nebraska, Minnesota, Iowa and Washington (in descending order). Of the top 50 most damaging storms at the county level, 16 occurred in the month of June, 10 in August, nine in September, seven in July, and eight in May.

Crop-hail loss ratios by state are shown in Figure 13. Colors identify states with similar loss ratios, and shading is used to identify states with similar premium volume. Crop-hail insurance was written in 43 states in 2012. Of these states, seven had a loss ratio in excess of 1.00; they are shown in dark blue and light purple in the map. Among the latter, Kentucky, with premium of \$5.5 million, had the highest loss ratio of 2.96, followed by a loss ratio of 2.03 in Washington with premium of \$13.3 million. Indiana, with \$20.8 million of premium, had a loss ratio of 1.74, while California, with \$1.1 million of premium, had a loss ratio of 1.64. Of the 43 states, 19 had loss ratios of 0.50 or less, shown in yellow and light green on the map, including North Dakota with \$99.3 million in premium. Not unexpectedly, the states most affected by the drought also tended to have low hail loss ratios, with the exception of Indiana and Ken-

tucky which had more than 90 percent and 70 percent, respectively of the losses from hail (about a quarter of losses came from wind in Kentucky).

Information for this section was obtained from NCIS' Insured Crop Summary and claim files.

Canadian Crop-Hail Experience

Crop-hail business in Canada is primarily written in the prairie provinces of Alberta, Manitoba and Saskatchewan. Denoting Canadian dollars with C\$, crop-hail loss payouts totaled C\$280 million on 21,600 losses, up from C\$164 million in 2011 and C\$155 million in 2010, well above the C\$76 million paid in 2009 and yet still less than the record losses of C\$341 million in 2008. Total premium for 2012 for all three provinces was C\$341 million, resulting in a loss ratio of 0.82 as compared with 0.61 in 2011, 0.59 in 2010, 0.29 in 2009 and 1.18 in 2008. Note that these loss ratios do not reflect loss adjustment costs. In that regard, 2012 stood out because adjusters faced adverse conditions due to diseases and wind damage in going into canola fields to determine the hail damage. Finally, the average loss per claim came to \$12,963, about \$2,000 above the 2011 amount. Factors contributing to the rise in losses per claim were reported as: increasing farm size over the years, some

higher per acre insurance coverage limits and the severity and timing of storms.

Manitoba had higher losses in 2012 (over C\$31 million generated by about 2,500 losses) compared with C\$6.9 million in 2011 (on a total of 1,100 losses). While premiums reached C\$49 million in 2012, up from C\$31 million premium in 2011 and C\$37.6 million premium in 2010. The loss ratio rose to 0.65 in 2012, up from a favorable 0.22 in 2011, 0.39 in 2010, 0.29 in 2009 and (unlike the other two provinces) 0.35 in 2008. The Southern part of the province saw significant several storm activities during the first week of July.

In contrast to an average hail year in 2011, Alberta was hit hard in 2012. Losses climbed to C\$90 million (on a record-high total of 5,500 claims) in 2012, above the 10-year average, particularly up from C\$36 million in 2011, C\$38 million in 2010, and C\$40.6 million in 2009. Premiums were slightly over C\$79 million; the loss ratio climbed to 1.13 in 2012, well above 0.53 in 2011, 0.61 in 2010, 0.83 in 2009, and yet remained lower than the 1.47 loss ratio in 2008 (2008 also had higher total payments than 2012). Storms occurring in the months of June, July, August and September in various areas of the province caused severe damage in 2012.

Saskatchewan, the largest province in terms of hail business, continued to experience increasing hail losses. The number of claims rose to 13,500 in 2012, up from 4,075 in 2009, 11,600 in 2010, and 11,800 in 2011, yet remained lower than 21,000 in 2008. Moreover, cost per claim was also higher in 2012 than the average. Losses climbed to \$159 million, up from C\$121 million in 2011 and C\$103 million in 2010, but much less than the record of C\$228 million set in 2008. For 2012, June saw higher losses (about three times the average) while July, August and September were about average. Nevertheless, August saw rather high severity in losses, while September saw very high losses per claim. Premiums were about C\$212 million for the year, higher than C\$168 million in 2011, C\$166 million in 2010, C\$172 million in 2009, and C\$177 million in 2008. The loss ratio for the year was nearly 0.75, up from 0.72 in 2011 and 0.62 in 2010, yet lower than 1.29 in 2008. The exception was 2009, when payouts reached a record low of \$23.4 million with a loss ratio of less than 0.14.

Information for this section of the article was taken from The Hail Report, a publication sponsored

by the Canadian Crop Hail Association. The Hail Report is produced every two weeks during the hail season.

Program and Policy Developments

There were many crop insurance program developments during 2012. A key, ongoing issue is the new premium rating method that was first announced in 2011 for initial phase-in with the 2012 corn and soybean crops. RMA reported that the 2012 premium rates for corn were reduced by seven percent on average and soybeans by nine percent. The corn reduction included the effects of discontinuing the premium discount for planting qualifying hybrids of corn (the Biotech Endorsement) and making that reduction part of the base premium rate. For 2013, RMA refined the new methodology based on further analysis of peer review comments and included more crops. New rates for 2013 resulted in minor changes for the U.S. average rates for corn, grain sorghum, and cotton, although there were a number of regional increases and decreases. RMA reported an average decrease of about eight percent for rice and six percent for soybeans. There was an average increase of four percent for spring wheat. RMA continued the phase-in, setting premium rates so as to limit potential increases due to the 2012 drought losses, in order to provide stability in premium rates. Rate changes for 2013 were fully implemented if the indicated average rates for Yield Protection changed 15 percent or less and partially implemented if the rate changes exceeded 15 percent, with no average change allowed to exceed 20 percent.

The crop insurance industry undertook extra efforts to assist producers affected by the 2012 drought. USDA and crop insurance companies mutually agreed that companies would voluntarily forego charging the normal interest rate of 1.25 percent per month on unpaid crop insurance premiums for an extra 30 days (to November 1, 2012, for spring crops). To assist the crop insurance companies, USDA did not require companies to pay uncollected producer premiums until one month later.

The Trend-Adjusted Actual Production History (TA-APH) Yield Endorsement was introduced for the 2012 crops of corn and soybeans in the Midwest, enabling producers to increase their yields used for their insurance guarantees. Participation was quite high, 71

percent of eligible 2012 corn acres and 63 percent of eligible soybean acres. Growers appeared to reduce coverage slightly if they previously had been participating at high coverage levels and increase coverage somewhat if they had been purchasing low coverage levels. For 2013 crops, the endorsement is to be provided in additional counties for corn and soybeans and expanded to wheat, canola, cotton, grain sorghum, and rice in certain areas.

A program issue surfacing in 2012 was the procedure for managing a cover crop to ensure eligibility for insurance of the crop following the cover crop. Cover crop procedures are designed to ensure that the insurable crop's development is not disadvantaged by the cover crop due to reduction in soil moisture or other nutrients. The procedures vary by region and commodity, but interest in providing greater conservation benefits, augmenting forage supplies and affording producers greater flexibility to manage cover crop termination during wet springs. These factors led RMA to reduce the time between termination of the cover crop and planting of the insured crop. For example for corn and soybeans in the Midwest, the termination date in previous years was May 15. For 2012, it was changed to June 5, and for 2013, it will be 7 days before the final planting date.

The USDA Acreage and Crop Reporting Streamlining Initiative (ACRSI) continued during 2012. For the 2013 crop year, acreage-reporting dates have been standardized between agencies, a data governance process has been established to maintain the new common data standards and an on-line acreage-reporting tool is expected to become available on a pilot basis. In December 2011, RMA issued a bulletin requesting comments due in early 2012 regarding possible enhancements to the calculation of the APH and changes to production reporting. These enhancements would result in permanent yield data bases, separate for the insured land as well as for individual producer yields, introduce personal T-Yields in place of current T-Yields, change the timing of production reporting and allow the use of new technology such as precision farming information for reporting. Such changes are intended to achieve cost savings, reduce complexity, improve program integrity, and utilize new technology. RMA is currently assessing the comments for further consideration.

Recognizing the generally rising and higher commodity prices and production costs over time, RMA revised the trigger level for required reviews of large claims. Insurance companies must now identify and conduct an inspection on any eligible crop insurance contract with an indemnity of \$200,000 or more (previously, \$100,000). The Standard Reinsurance Agreement was amended to reflect this new threshold. The higher threshold helps expedite payment of claims in a year like 2012 when there are many large claims.

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New products introduced for the 2012 crop year included Revenue Protection and Revenue Protection with Harvest Price Exclusion for popcorn, Actual Revenue History for strawberries, dollar insurance plans for tangerine trees and Citrus VI (lemons and limes separately) and new APH policies for camelina, pistachios and olives. In addition, all of the 16 approved insurance providers (AIPs) operating in 2012 were approved for the 2013 reinsurance year, and a 17th, which had been an AIP from 2001 through 2011 returned to the program in 2013.

The major national policy developments for crop insurance during 2012 stemmed from Congressional action to replace the 2008 Farm Bill, many of whose provisions expired in September 2012. Crop insurance was not affected by the expiration, as its authorization is under

permanent law, the Federal Crop Insurance Act. In fall 2011, the Chairs and Ranking Members of the House and Senate Agriculture Committees developed a farm bill proposal to reduce farm bill spending by \$23 billion over 10 years. This proposal was submitted to the Joint Committee for Deficit Reduction, created by the Budget Control Act (BCA) of 2011. While the Joint Committee failed to produce the deficit reduction legislation intended by the BCA, the submitted proposal became the starting point for farm bill legislative action in both the Senate and House. The Senate passed its farm bill, the Agriculture Reform, Food, and Jobs Act (S. 3240), on June 21, 2012. At that time, CBO estimated the bill would reduce baseline spending by \$23 billion over 10 years.

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The House Agriculture Committee passed its farm bill version, the Federal Agriculture and Risk Management Act (H.R. 6083) on July 11, 2012, but no floor action transpired. CBO estimated the House bill would reduce agriculture spending by \$35 billion over 10 years. Congress was preoccupied with the imminent breaching of the Federal debt ceiling and the so-called “fiscal cliff,” expiring tax legislation and an impending sequester resulting from the failure of the BCA process. Passing a new 2012 Farm Bill could not be accommodated among these other priorities.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. The Act extended the 2008 Farm Bill provisions until September 30, 2013, or, in the case of the farm commodity programs, through the 2013 crop year. Action on a new Farm Bill is expected in the Senate and House during 2013. In early 2013, CBO reduced the estimated savings previously at-

tributed to the bills developed during 2012, implying further changes will be needed to reach savings targets. Both the Senate and House Committee farm bills are expected to be the starting points for 2013 action. Both bills create new revenue programs to supplement crop insurance. The Senate bill gives producers a choice of free farm programs that provide either individual or area coverage of 79-89 percent of a benchmark revenue, while the House bill offers the choice of a supplemental area farm program that covers 75-85 percent of benchmark revenue or a target price program. Both bills provide for supplemental area-based plans sold by crop insurance companies. One plan, Stacked Income Protection, or STAX, is just for cotton producers only, while the other, Supplemental Coverage Option, or SCO, is for all other crops. In addition, the Senate bill includes an Adjusted Gross Income (AGI) test for receipt of crop insurance premium discounts. Subsidies would be reduced 15 percentage points for producers with AGI over \$750,000. The Senate bill also makes receipt of premium discounts contingent on producers being in compliance with wetland conservation and highly erodible land conservation provisions (compliance required within five years for the latter). Both bills set imputed CAT premium rates at actuarially sound levels, which would reduce premium rates, company loss adjustment payments and underwriting gains. Other provisions in both bills would allow enterprise units by practice, allow different coverage levels on irrigated and dryland acres, raise the APH yield plug to 70 percent of transitional yields (with differences between the bills), increase benefits for beginning farmers and reduce benefits for producers who plant on native sod (with differences).

Sources: RMA, “Premium Rate Adjustment,” available at: www.rma.usda.gov/news/2012/11/2013premiumrateadjustment.pdf; RMA, “Participation in Trend-Adjusted APH for 2012,” available at: www.rma.usda.gov/pubs/2012/trendadjaph.pdf; RMA, “Commodity Fact Sheets,” various issues; RMA, *Manager’s Report, various meetings of the Federal Crop Insurance Corporation*, available at: www.rma.usda.gov/fcic/archive.html; Collins and Bulut, “Crop Insurance Takes Center Stage in 2012 Farm Bill Debate,” *Crop Insurance TODAY*, Nov. 2012., pp. 4-16.

Conclusion

The crop insurance program once again proved itself as the premier safety net for U.S. farmers and ranchers in 2012, despite a far-reaching drought that presented a great challenge to adjust losses and pay claims in an efficient and timely way. By all accounts, the industry rose to the challenge and provided the services and payments essential to maintaining the nation’s food production infrastructure. For the second year in a row, RMA reported that it received virtually no complaints regarding service, despite the large number of claims. Insured acres, liability, indemnities and units indemnified reached record highs. Producers again increased coverage levels on average. The estimated loss ratio of 1.53 was the highest since 1993. The companies approved to provide crop insurance coverage continue to be financially sound, with 17 companies approved to write insurance in 2013. The Crop-Hail program, which provides protection against localized damages that might otherwise be noninsured losses under the Multiple Peril Crop Insurance program, again provided critical protection to producers during 2012.

Destructive weather in 2011 and again in 2012 has cemented the role of crop insurance as the essential ingredient in public support of the farm economy. After many years of Congress passing *ad hoc* disaster legislation to deal with weather misfortunes in agriculture, there were no calls for crop disaster legislation in 2011 and 2012, thanks to the effective support provided by crop insurance. Legislation passed by the Senate and the House Agriculture Committee during 2012 strengthened the crop insurance program, a response to widespread encouragement by farmers and their organizations to do so. Producer support for crop insurance remains unparalleled—and for good reason. Crop insurance provides individualized risk protection, ensuring access to credit, payment of expenses and enables the farmer to farm another day. Farmers pay premiums and companies bear losses, both of which helped reduce what might otherwise have been taxpayer burdens in 2012. When Congress resumes action on the 2013 Farm Bill, crop insurance is likely to remain the cornerstone in its effort to protect and stabilize financial conditions in the sector so essential to U.S. food, feed, fiber and energy production.