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United States Department of Agriculture

USDA's  
93rd  
Annual

# Agricultural Outlook Forum

## A New Horizon: The Future of Agriculture

February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia

Presentation from the USDA Agricultural Outlook Forum 2017

United States Department of Agriculture  
93<sup>rd</sup> Annual Agricultural Outlook Forum  
“A New Horizon: The Future of Agriculture”

February 23-24, 2017  
Arlington, Virginia



# 2017 USDA Agricultural Outlook Forum

## Farm Safety Net: Risk Management and the Rural Economy

Thomas P. Zacharias

National Crop Insurance Services, Inc.

Arlington, Virginia

February 23-24, 2017

# Organization of Presentation

- NCIS Background
- Institutional Setting
- Metrics
- Why is this Important

# NCIS Functions

- Crop Insurance Program Development and Analysis
  - Policy Analysis, Loss Adjustment Procedures, Legal Analysis, Agronomic Research
- Economic and Actuarial Analysis
- Education and Training
  - Nationwide Loss Adjuster Schools – 18 Sites for 2016
  - National Training Conferences Involving all AIPs and RMA
  - Regional/State Committee Structure – Allows for Ground-truthing and Regional Input
- Crop-Hail Advisory Organization and Statistical Agent
  - Licensed by Individual State Insurance Departments
- Public Relations and Industry Outreach

**All Approved Insurance Providers (AIPs) are NCIS Members**

# The Prime Directive *(“Kirk to Enterprise”)*

## **The Crop Insurance Act**

- Purpose

It is the purpose of this subchapter to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance.

- 1938 Act – Established Federal Crop Insurance Corporation
- 1980 Act – Private Sector Entry: Program expansion
- 1994 Act – Result of 1993 flooding and excessive moisture: Introduction of catastrophic coverage
- 2008 Act – Increased R&D; data mining; funding reduction
- 2014 Farm Bill – Crop Insurance as cornerstone of safety net
- 2018 Farm Bill – “Beam me up Scotty”

## **A History of Policy Commitment to Agricultural Risk Management through Crop Insurance**

# What is Crop Insurance?

Three Basic Types: All sold and serviced through private companies

- 1) Production/Yield Coverage – Regulated by USDA/RMA
- 2) Revenue Coverage – Regulated by USDA/RMA  
[Yield and Revenue Coverage are commonly referred to as Multiple Peril Crop Insurance (MPCI)]  
Revenue is Dominant Coverage – Primarily field crops
- 3) Named Peril Crop-Hail Insurance – Regulated by state insurance departments

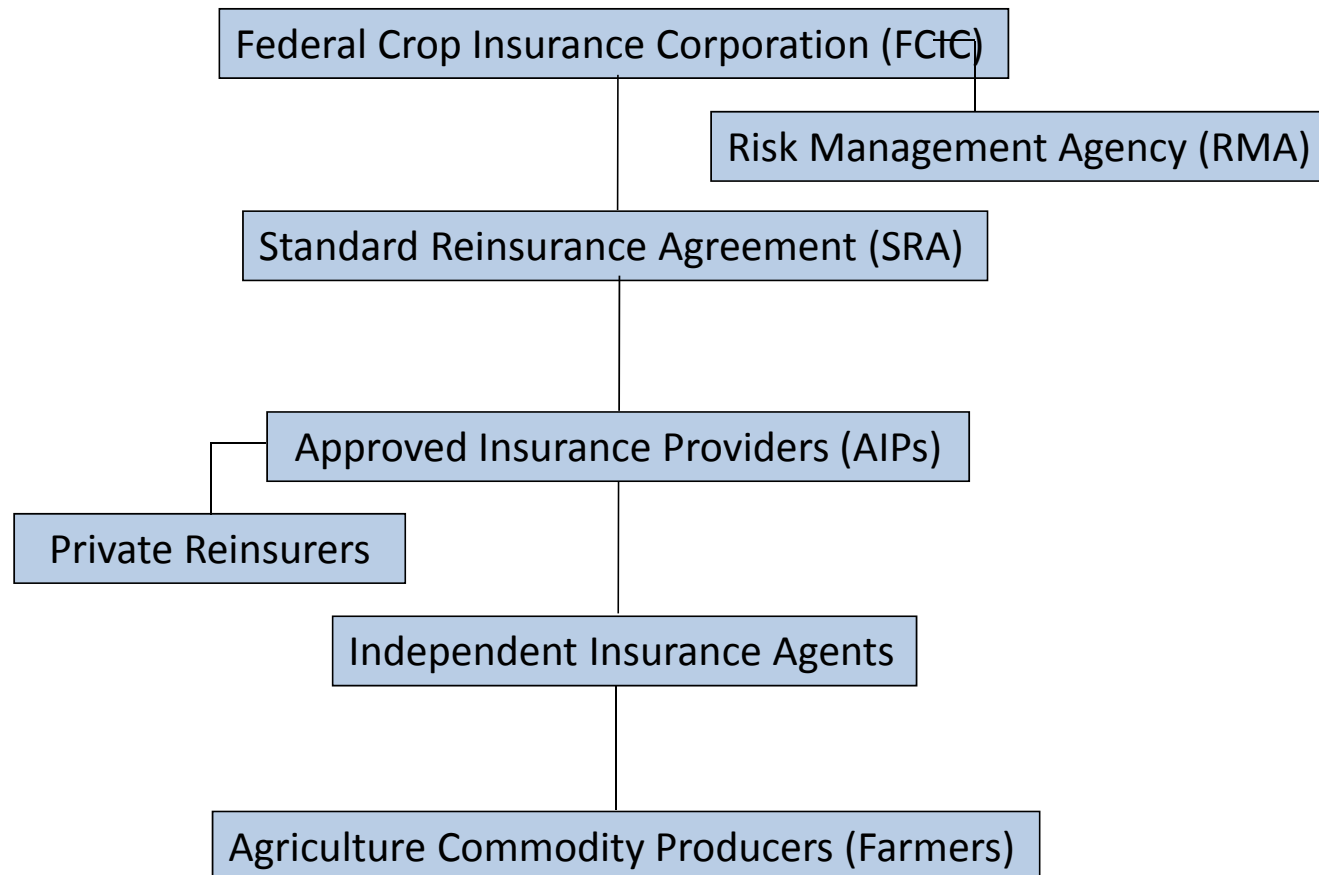
**Our focus today is Federally regulated lines**

# Institutional Setting of Federal Crop Insurance

- Economic and Political Partnership
- Rules/Contract Based System
- Public-Private Cost-Sharing



# Structure of the Crop Insurance Public-Private Partnership



# Insurance is Contract/Rules Based

- System is Characterized by Contract
  - Farmer ⇔ Insurance Company
  - Agent ⇔ Insurance Company
  - Insurance Company ⇔ FCIC\*/USDA\*\*
  - FCIC ⇔ Federal Government

(the Federal Crop Insurance Act)

\*FCIC: Federal Crop Insurance Corporation

\*\*USDA: United States Department of Agriculture

# Regulatory Oversight

- Federal Regulation
  - USDA/Risk Management Agency
- State Regulation
  - Individual State Insurance Departments
- Regulatory Oversight Prevents Fraud, Waste and Abuse
- Regulatory Oversight Protects Farmers, Taxpayers and Shareholders

# Oversight Example

- Improper Payments Rate (OMB)  
(Not a fraud measure)
- Occurs when:
  - Federal funds go to wrong recipient
  - Recipient receives incorrect amount
  - Insufficient documentation

IMPROPER PAYMENT RATE					
	2012	2013	2014	2015	2016
RMA	4.08%	5.23%	5.58%	2.20%	2.02%
Government-wide	4.35%	3.53%	4.02%	4.39%	4.67%

# Multiple Levels of Cost-Sharing

- Farmer – Deductibles and Premium Costs
- Insurance Companies – Risk Sharing and Infrastructure
- Crop Insurance Agency Force – Infrastructure/Rural Presence
- Reinsurance Companies – Risk Sharing
- Taxpayers – Risk Sharing and Premium Support

All Stakeholders have “Skin in the Game”

# A Note on Affordability

Affordability is Key to Sustaining Participation

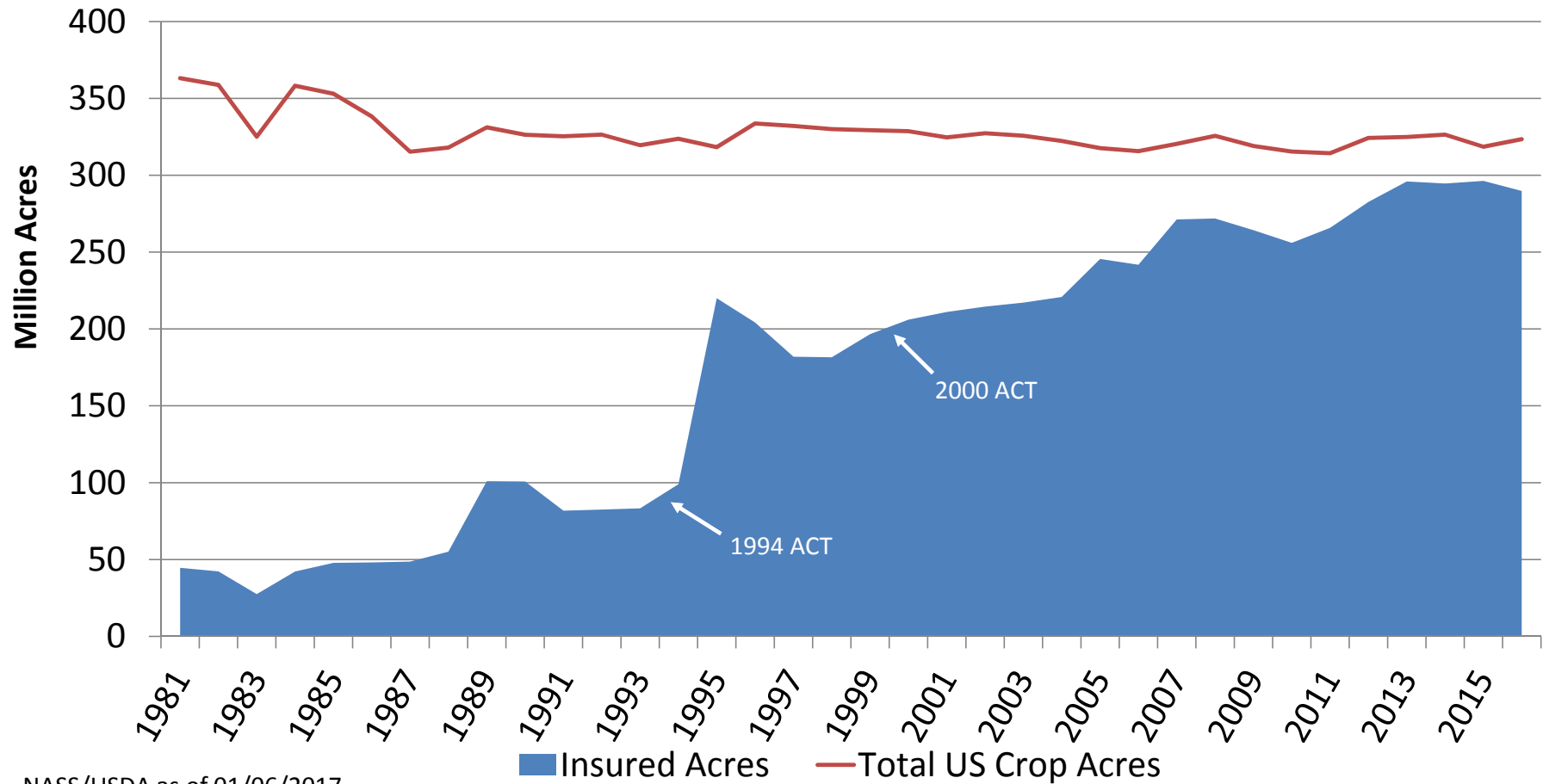
- Adequate participation results in sufficient actuarial pool
- Adequate participation reduces political demand for *ad hoc* disaster

# Has “Such Insurance” Been Established? (Referring to the Act)

## Participation Metrics

- Land Area Insured
- Insurance Coverage Levels
- Crop Diversity Insured
- New Insurance Plans Introduced

## Participating Acres Now Equal 90% of Planted



NASS/USDA as of 01/06/2017

NCIS Summary of Business as of 01/19/2017

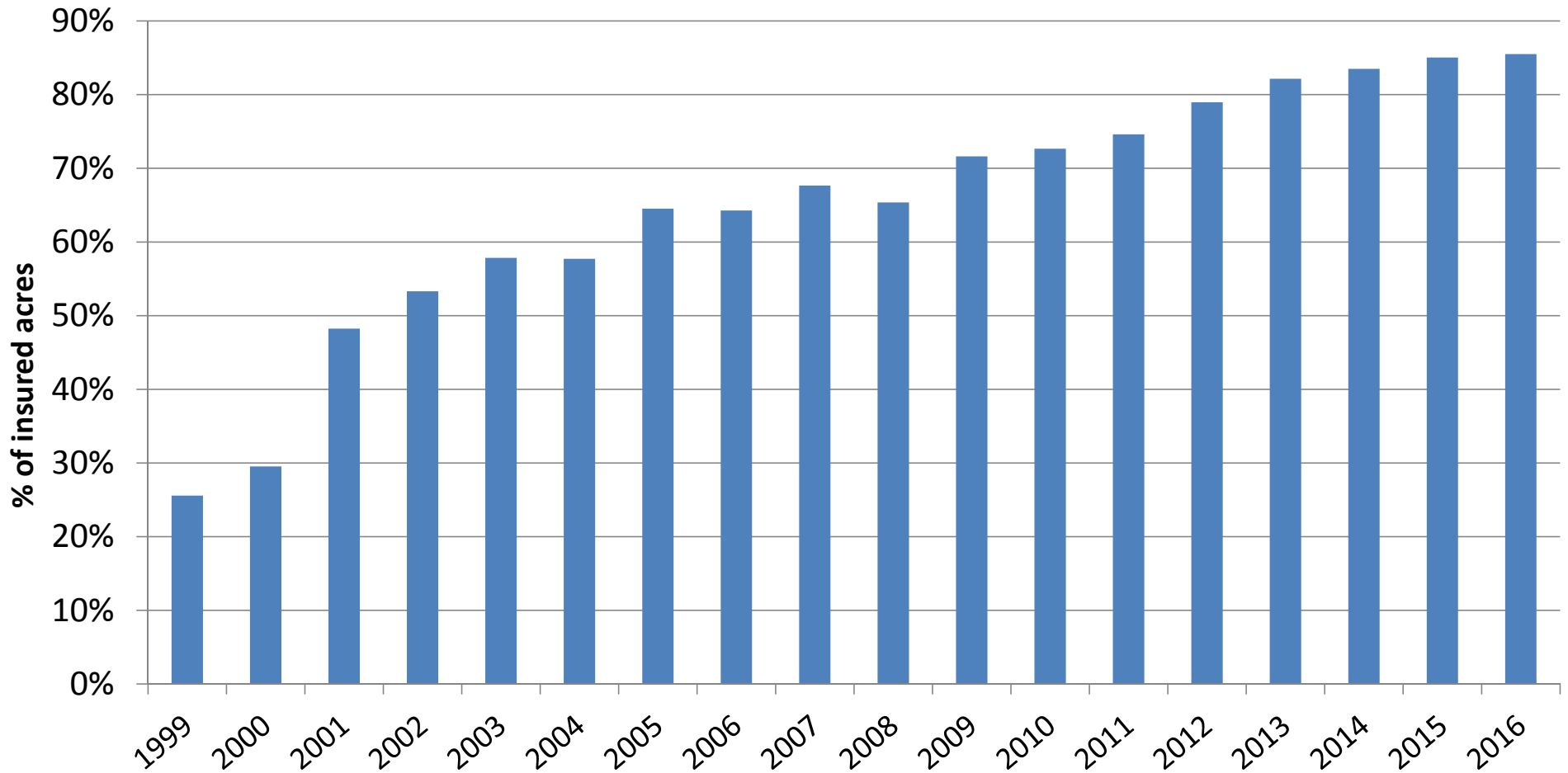
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Prepared 02/14/2017





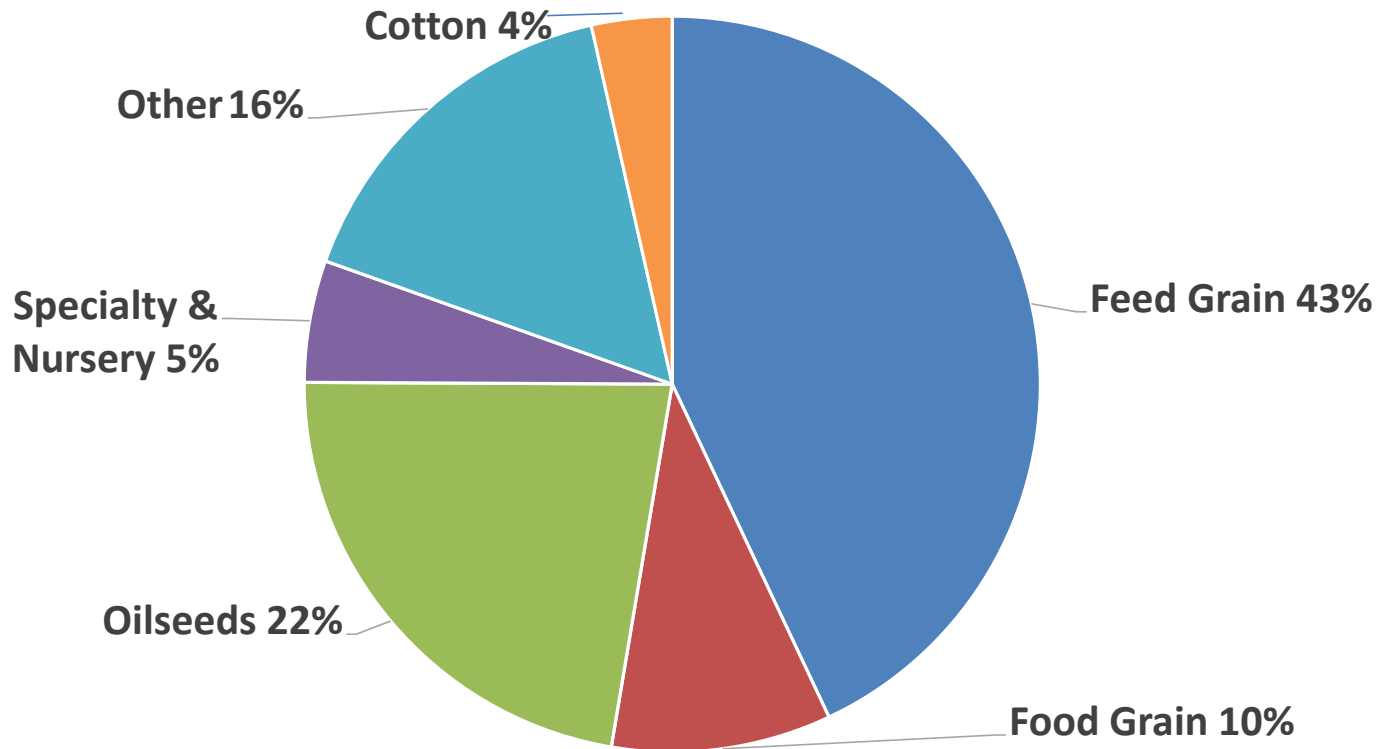
## 85% of Acres are Insured at 70% Coverage Level or Above



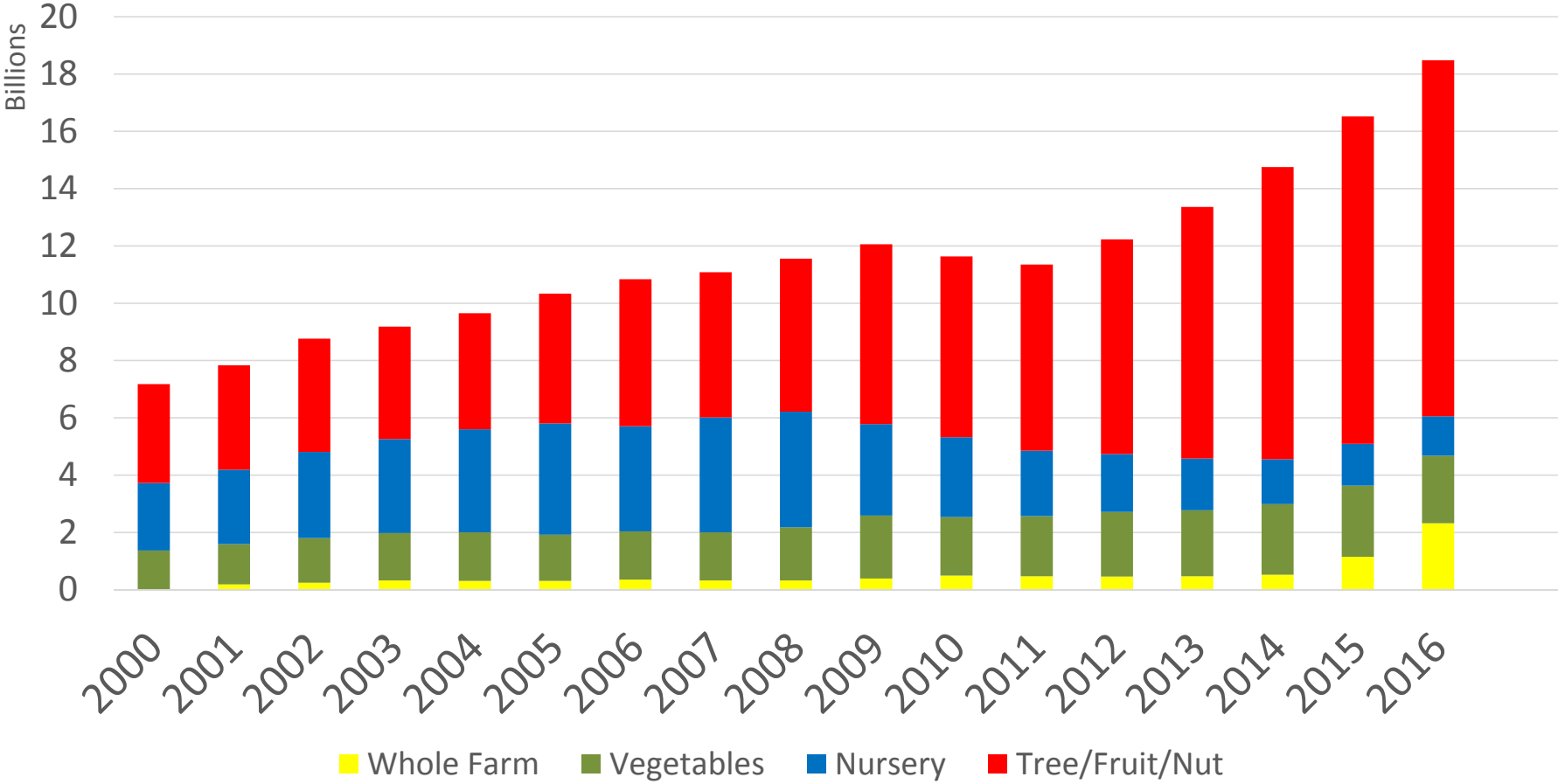
# Participation by Crop

## Liability By Major Crop, 2016

Total: \$100 bil.

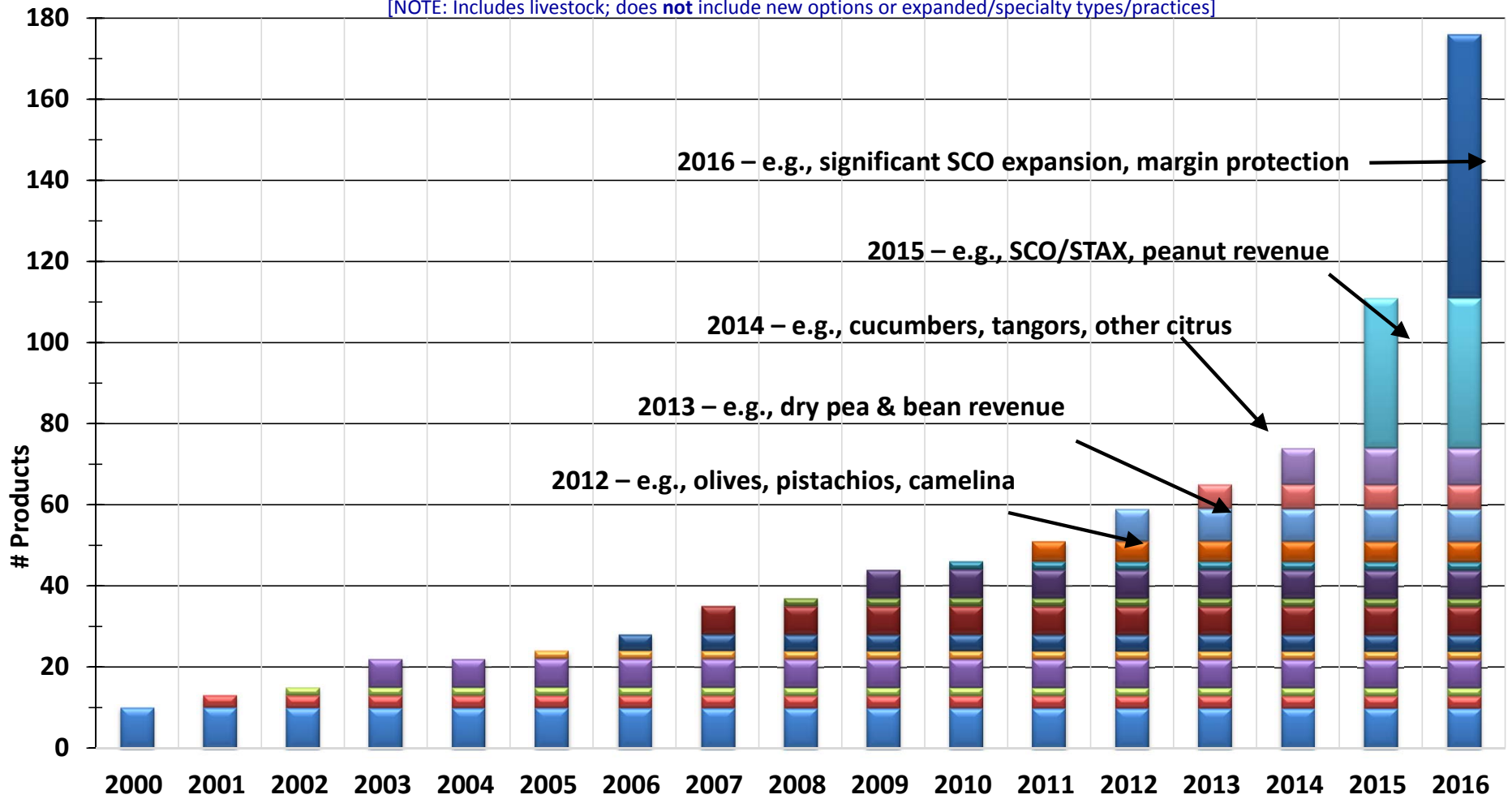


# Specialty Crop Coverage Growing



# Over 160 Product Introductions Since 2000

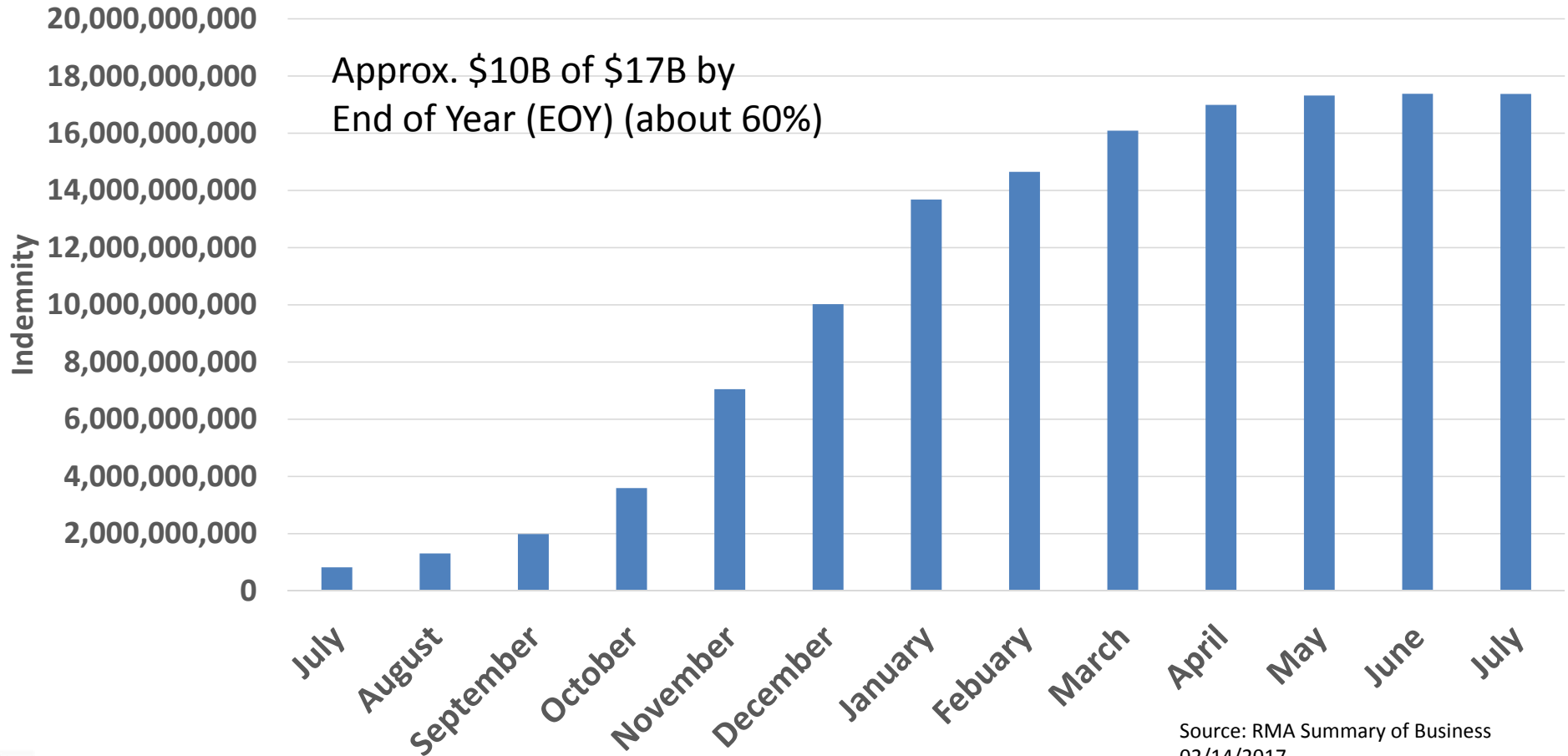
[NOTE: Includes livestock; does **not** include new options or expanded/specialty types/practices]



# Does the Private Sector Deliver?

- **Nationwide Participation** (see previous slides)
  - Land Area
  - Crop Diversity
  - Coverage Levels
- **What About Timing of Indemnity Payments?**
  - National and Regional Examples

## Multiple Peril Crop Insurance 2012 United States Indemnity

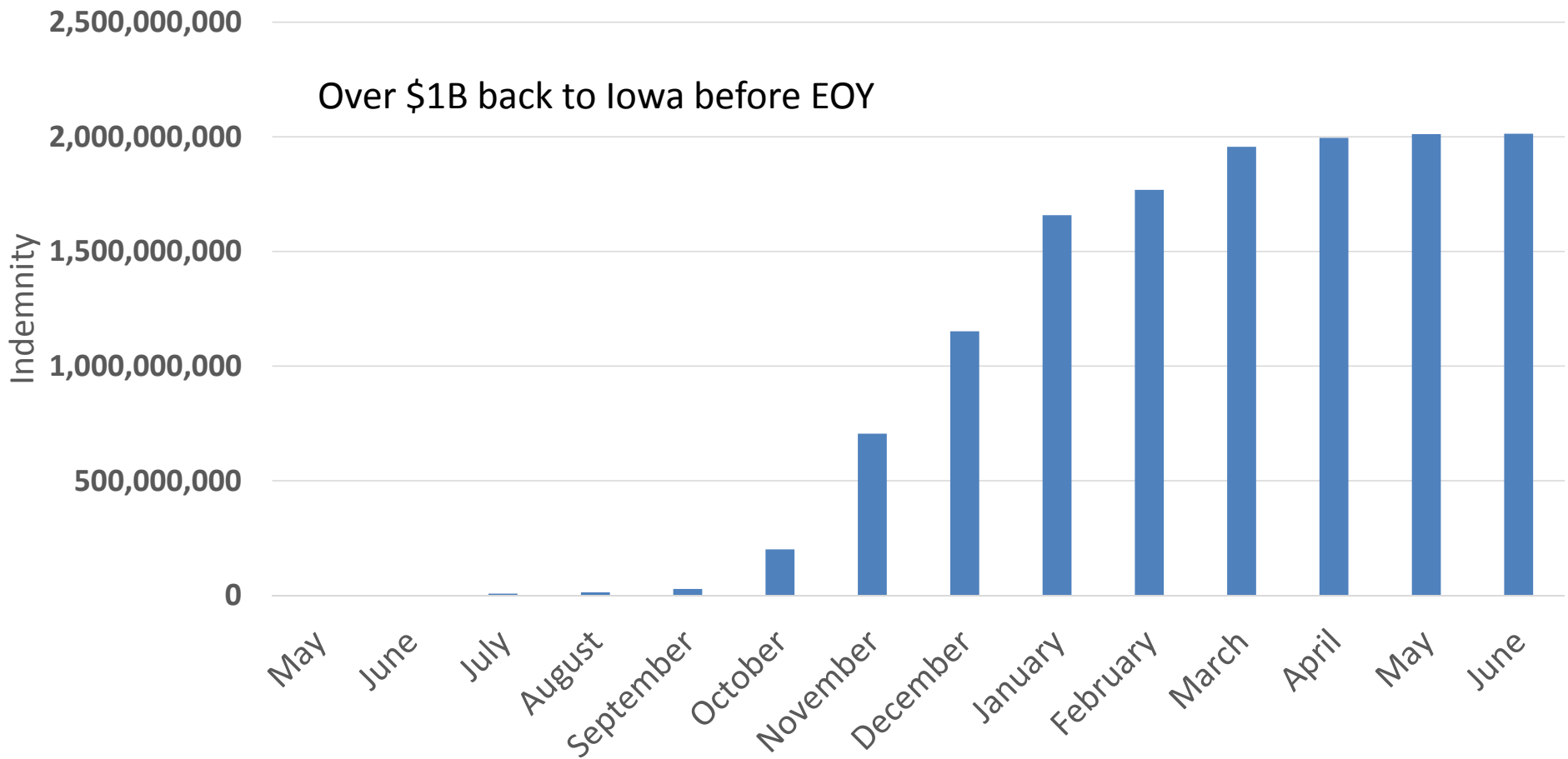


Source: RMA Summary of Business  
02/14/2017

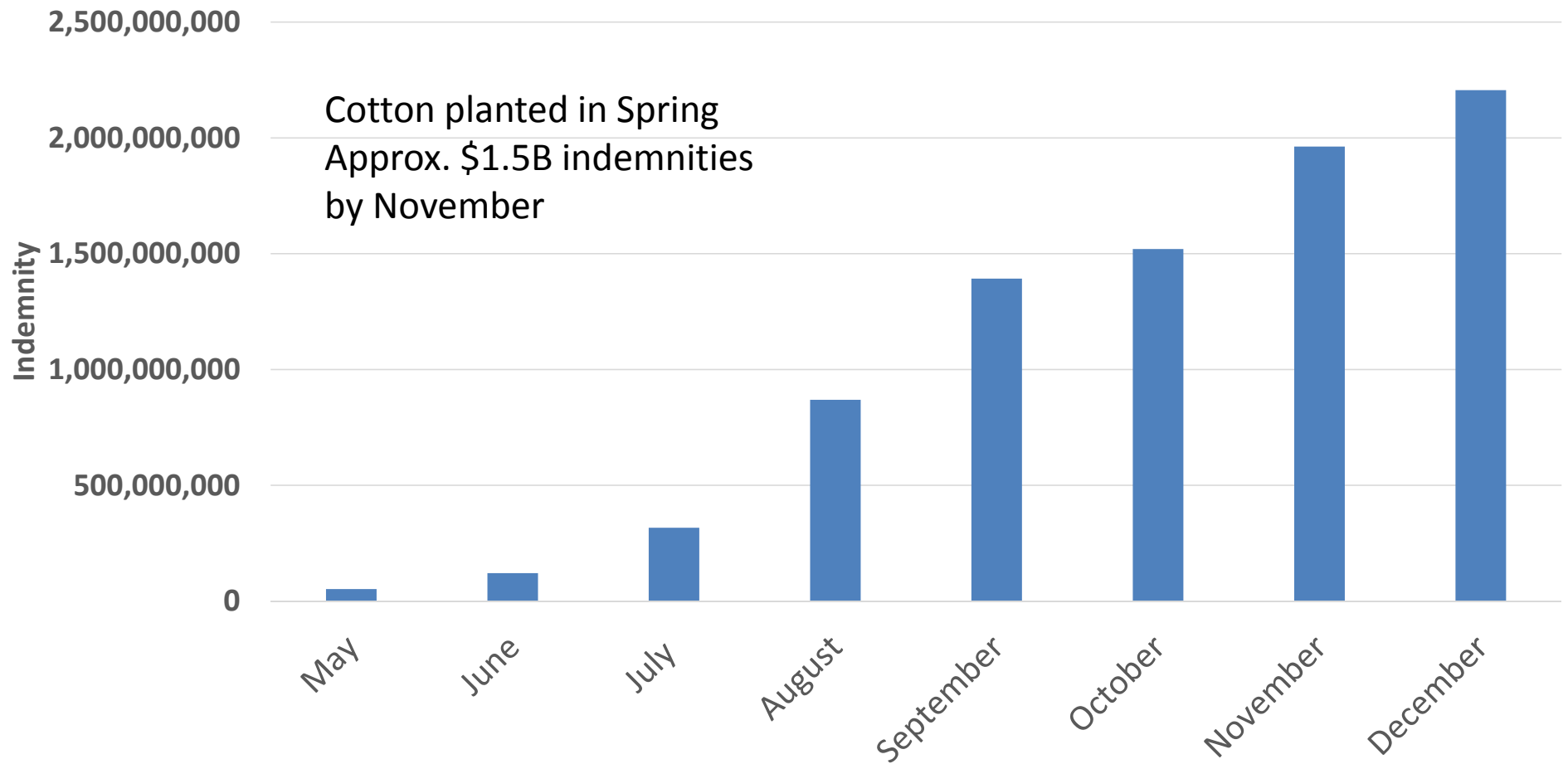
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## Multiple Peril Crop Insurance 2012 Iowa Indemnity



## Multiple Peril Crop Insurance 2011 Texas Indemnity





Crop Insurance has Strong Support  
from  
the Farm Community  
and  
Congressional Support  
(2015 Bipartisan Budget Act/Highway Bill)

# What About the General Public?

## 2016 Public Opinion Survey Results

- Nearly 90 percent of Americans have a favorable view of farmers, and 92 percent said it was important to provide them with federal support.
- Eight in 10 voters believe a vibrant agricultural industry was critical to the country's national security.
- More than 70 percent of voters also said they believed that farmers should help fund part of their own safety net.
- Nearly 80 percent said they supported giving farmers discounts on insurance premiums.
- When asked who should implement the system, voters agreed by a 20-point margin that farmers and taxpayers were better served by private companies delivering crop insurance instead of the government.

In Closing:  
Behind the Bar Charts and Graphs  
are  
Real People

An unsolicited letter received at NCIS

***“My family was standing by our picture window, watching the storm move in. The wind picked up. The sky turned completely black. It pretty much decimated every field we had and threw our lives into chaos.”***

***“We're not big farmers. We basically have it all on the line every year.”***

***“After the storm, I just stood there and thought about all the years, and the labor, and the effort. We poured the best of our physical strength, our youth, our sanity and ourselves into the farm. Then, I thought about our children and how we do it all for them. We do it to have something for them, something to give them. Now what?”***

***“We then started talking to the insurance people. There was an uncertain period where we had no idea what was going to happen. And then, the crop insurance money started coming through. For us, it was a miracle. We're going to be okay for now, and we'll farm another year.”***

***“Crop insurance changed our whole world, situation and outlook. I feel very fortunate.”***

## To What End?

A Financially Stable Agricultural Sector  
is Fundamental to the Well-Being  
of our Economy and Society  
and  
Crop Insurance Contributes  
to Agricultural Financial Stability

Thank you

Questions – Comments – Discussion



## Websites

### **NCIS**

[www.ag-risk.org](http://www.ag-risk.org)

### **Crop Insurance in America \*Just the Facts Tab**

[www.cropinsuranceinamerica.org](http://www.cropinsuranceinamerica.org)

## Social Media



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@USCropInsurance



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CropInsuranceInAmerica