PROGRAM OUTLOOK FOR
CROP INSURANCE IN 1984
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NOVEMBER 1, 1983

As we move into 1984, there are some exciting and significant changes to the Crop Insurance program. The 1980 Act authorizing our activities set the stage for a vastly expanded and improved program designed to be the primary disaster protection plan for american agriculture.

Program Expansion:

Expansion efforts have been dramatic. We've moved from offering crop insurance under less than 5,000 county programs in 1981 to over 18,000 in 1984. Most of the expansion of insurance has come in pre-existing lines of business; however, a number of new programs have been developed. Within the past twelve months, new programs have been implemented for Citrus Trees, Fresh Vegetables, and Hybrid Seed Corn.

The Board of Directors has approved for use in 1984, a separate Table Grape contract and new programs for Popcorn, Walnuts, and Cranberries. Priorities have been established for development of new offers to be made, probably in 1985, to producers in Hawaii (probably Sugarcane, Pineapples, Papayas, and Macadamian Nuts) and producers of American Pima Cotton, Malting Barley, Fresh Market Sweet Corn, Prunes, Onions, and Horticultural Specialty Crops. We expect further expansion of existing lines of business as we move to offer universal coverage to as many producers as possible of a wide variety of crops.

Improved Service to Producers:

Private insurance companies are delivering an increasing amount of crop insurance under reinsurance agreements with FCIC. Nearly 35 percent of the crop insurance in force in 1983 was serviced in this manner - up from 3 percent in 1981.

Nearly all the contracts on FCIC paper were serviced by professional private insurance agents and adjusters operating under agreements with the Corporation. Only the home office insurance functions relating to such contracts are now handled by federal employees. We continue to employ a limited field staff whose primary function is to support our private sector partners when problems arise.

The transition to a private sector delivery system is proving to provide steadily improving service to policyholders.

Improved Contract Provisions:

Perhaps the greatest task facing FCIC the past three years was the need to design contracts and coverages which truly met the needs of producers for protection. As the contracts were revised, they were placed in an easy-to-read format to ease increased understanding of the provisions.

Most contracts include changes designed to increase the protection available to producers when disaster beyond their control strikes.

For example:

1. The reduction in indemnity provision when a near total loss led a producer to not harvest his acreage was eliminated.

2. Replant provisions have been added to several policies.

3. Quality adjustments have been added to fairly reflect the reduced value of low quality production.

4. Stage guarantees, where applicable, have been increased to recognize current production costs.

5. The late planted option allows insurance protection when adverse weather prevents timely planting.

The single most significant change has been a move toward yield guarantees being based on actual production history rather than an average of a group of producers. The Individual Yield Coverage program (IYC) is now an option to contracts other than those using what we call the Grower Yield Certification (GYC) approach which also is based on individual production records and used for most specialized crops. In 1984, cotton and rice producers will have guarantees based solely upon individual production history (no area coverage). We expect the producers of Corn, Grain Sorghum, Tobacco, Peanuts, and Forage insured in 1985 to be offered only similar yield guarantees.

This change from our traditional way of doing business promises to reach a huge number of producers who have needed risk protection for years but who rejected crop insurance as a poor value priced package for their operation.

For the first time the better than average producer is to be offered yield guarantees which fairly reflect his capability and which are equitable in relation to his less productive neighbor. For the first time the premium rates will reflect the risks in a truly fair fashion. The loss experience of the past was based upon adverse selection and low participation rates and that experience affected rates to an unacceptable extent for many of our nation's best producers. We must have actuarial soundness! We must set rates which will generate sufficient premium income to pay the losses over an extended period of time. I am just as concerned, however, with rate equitability as rate sufficiency and so is the Director of the Corporation's Actuarial Division.

What is the Purpose of the Crop Insurance Program?

Perhaps I Should State What It Is Not!

It Is Not A Cow To Be Milked Regularly!

Every loss paid will ultimately reflect the cost to the producer. Payment of many little losses can be compared to matching quarters with policyholders. He wins one - we inch up the rate - get it back in the next few years - administrative and loss costs balloon - everyone loses.

It Is Not A Means To Guarantee A Profit!

Profit margins in production agriculture are so narrow today that marketing skill is essential for success. The rate for a policy which would guarantee net income would be so high that a participant wouldn't have net income when he otherwise would have.

It Does Not Relieve A Producer Of The Necessity To Do The Best Job Possible!

The cost is based upon each producer making the maximum effort which is physically and economically feasible. Our rules requiring recommended management practices will be enforced. If a producer's crop in reduced because of weed competition, he will be subject to a guarantee reduction for uninsured cause of loss if his failure to follow recommended practices contributed to the loss. Failure to apply nitrogen to a corn crop or failure to use irrigation capability when required will be treated in a similar fashion. Last planting date provisions will be enforced. We will conduct whatever number of growing season inspections are necessary to assure compliance with contract provisions.

What Then Is Crop Insurance?

It is an effective risk management tool for all producers. One that will keep a grower in business when conditions beyond his control significantly reduce his crops or destroy them completely.

It is a hedge against bad weather and other production problems. A small bet placed to protect a huge investment in a growing crop.

It is an investment that will pay off, rather than cost, over the long run. This is true because the federal premium subsidy and the administrative and operating expenses are paid by the United States Treasury.

It is protection against a catastrophe that might well put a producer out of business.

It is a quality product offered at a fair price.

Why haven't producers been knocking down doors to buy crop insurance?

In many areas of the county, protection against the risks covered by crop insurance is not a generally accepted business practice. Producers insure their houses, barns, livestock, and machinery - they purchase liability insurance, they own health, life, accident, and property casualty policies - yet fail to cover the greatest risk they accept - those related to weather. I see this situation changing! As lenders and extension agents, as farm managers, and as good successful farmers support, encourage, and recommend crop insurance to the producers within their sphere of influence.