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USDA
Agricultural Outlook Forum
1999

Using Risk Management
for Environmental
Improvement

Arlington, VA

February 23, 1999

An aerial photograph of a rural landscape. A large, flat agricultural field is partially flooded with water, creating a winding waterway that flows from the background towards the foreground. The water is a deep blue, contrasting with the golden-brown and green of the crops. In the distance, there are some farm buildings and trees under a clear sky.

**CROP INSURANCE
PRIVATE CHOICE**

for

PUBLIC CONCERN

The Company's Role

by

Steven C. Griffin

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.

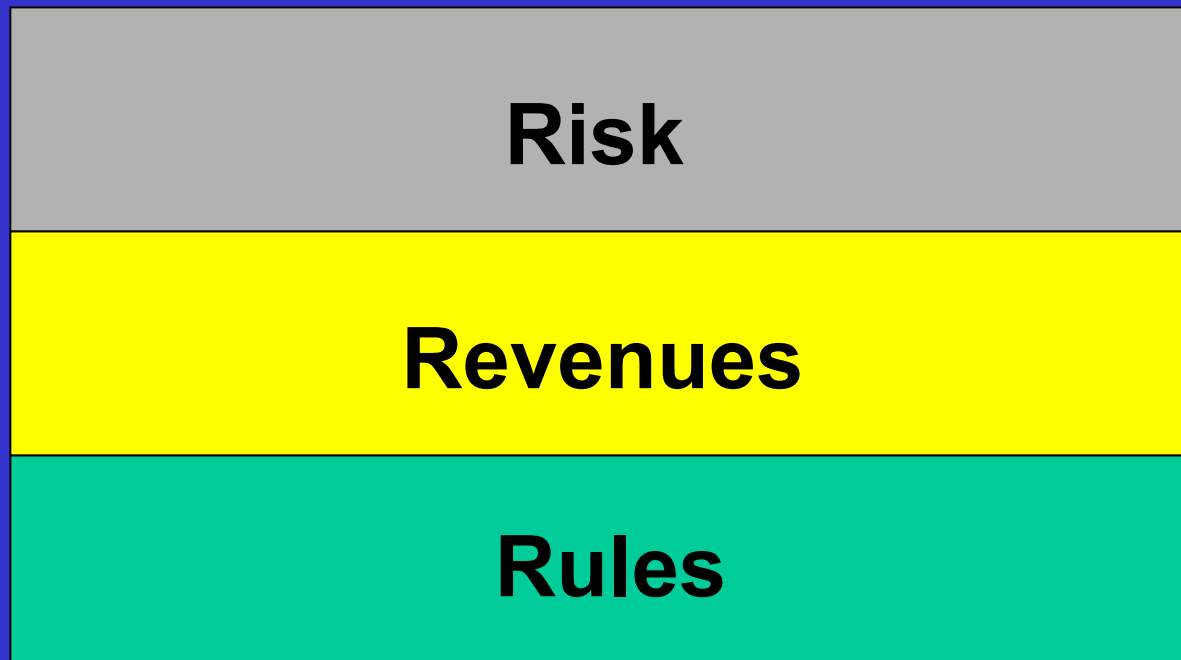
Risks are taken only to the extent that there exists some volatility in the expected results of the risk pools.

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

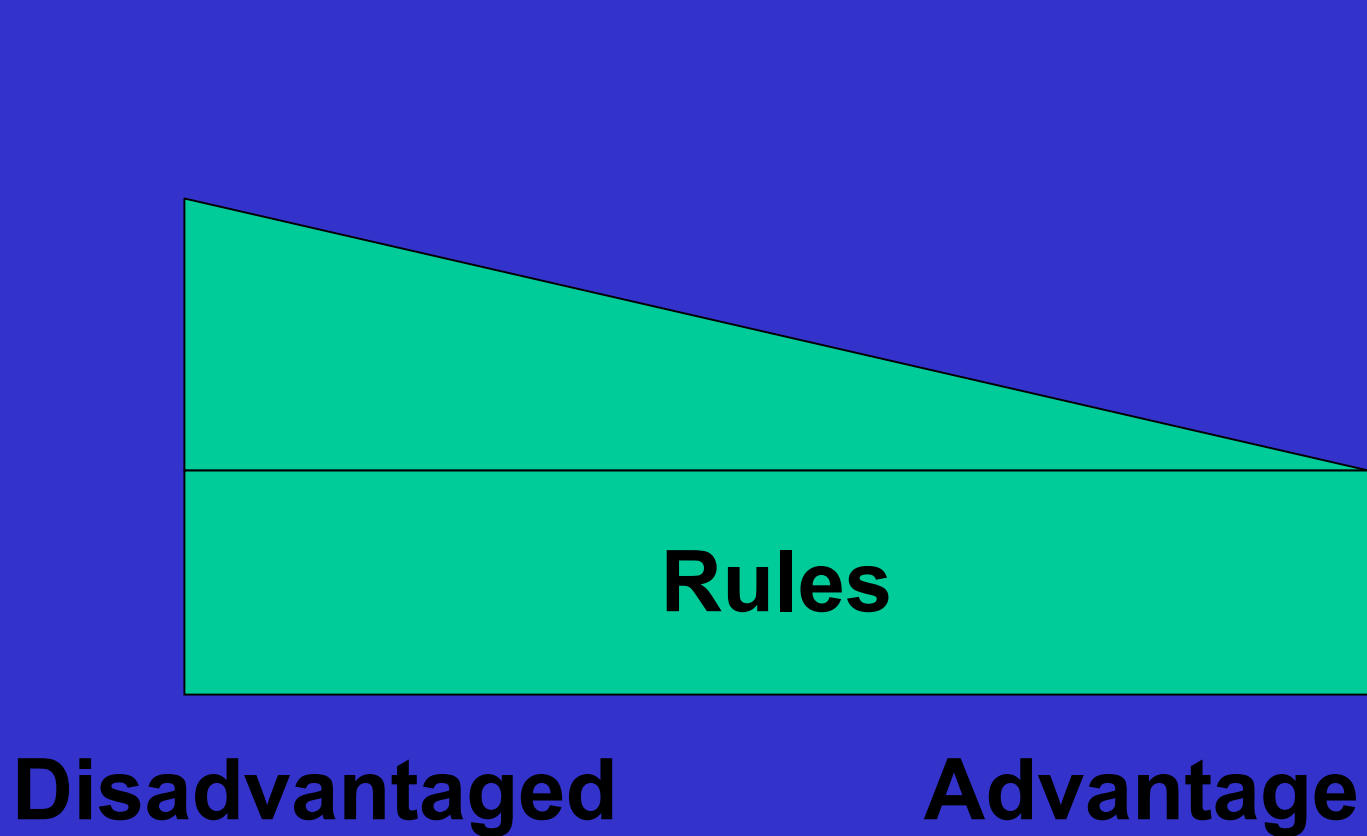
The Three R's



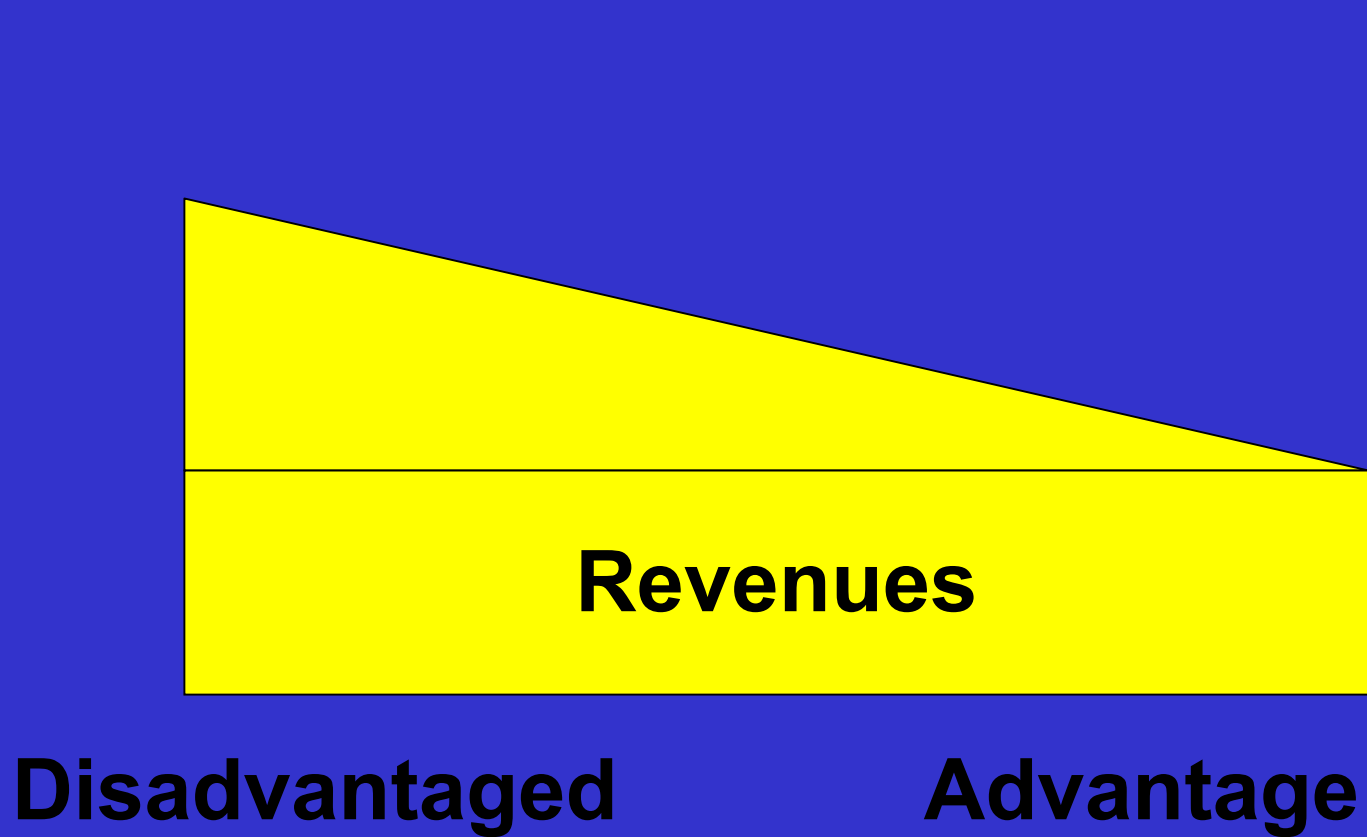
Goal #1

Goal #2

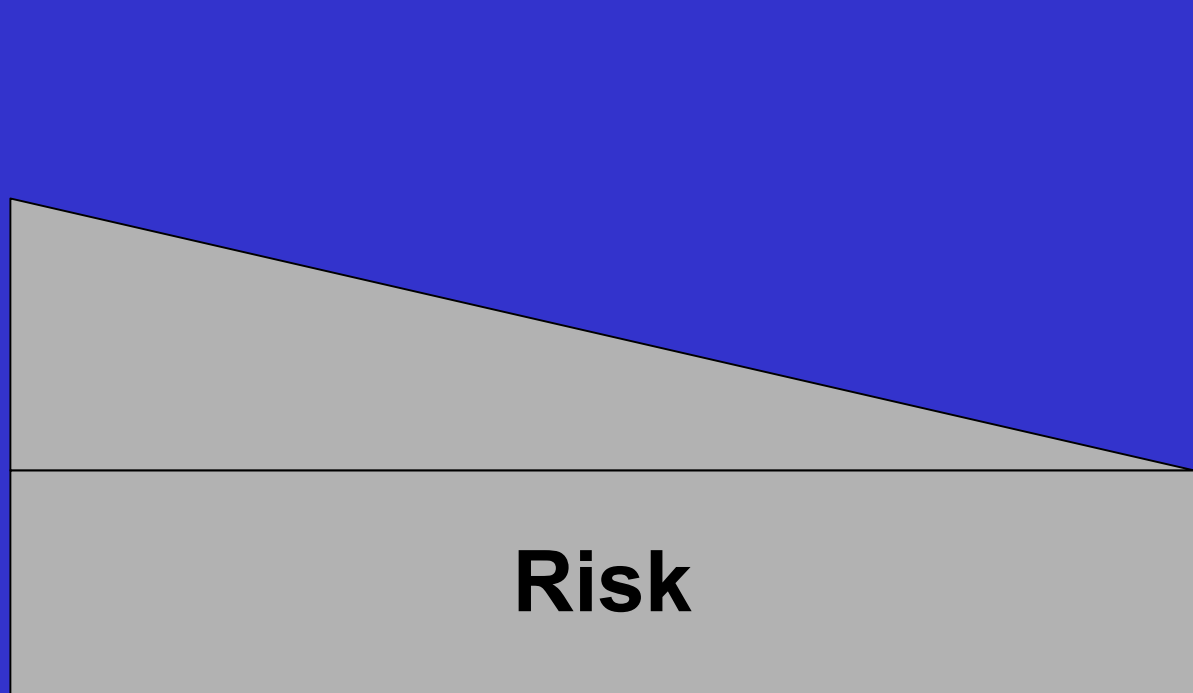
Rules can level or tilt the playing field



Economic incentives are powerful



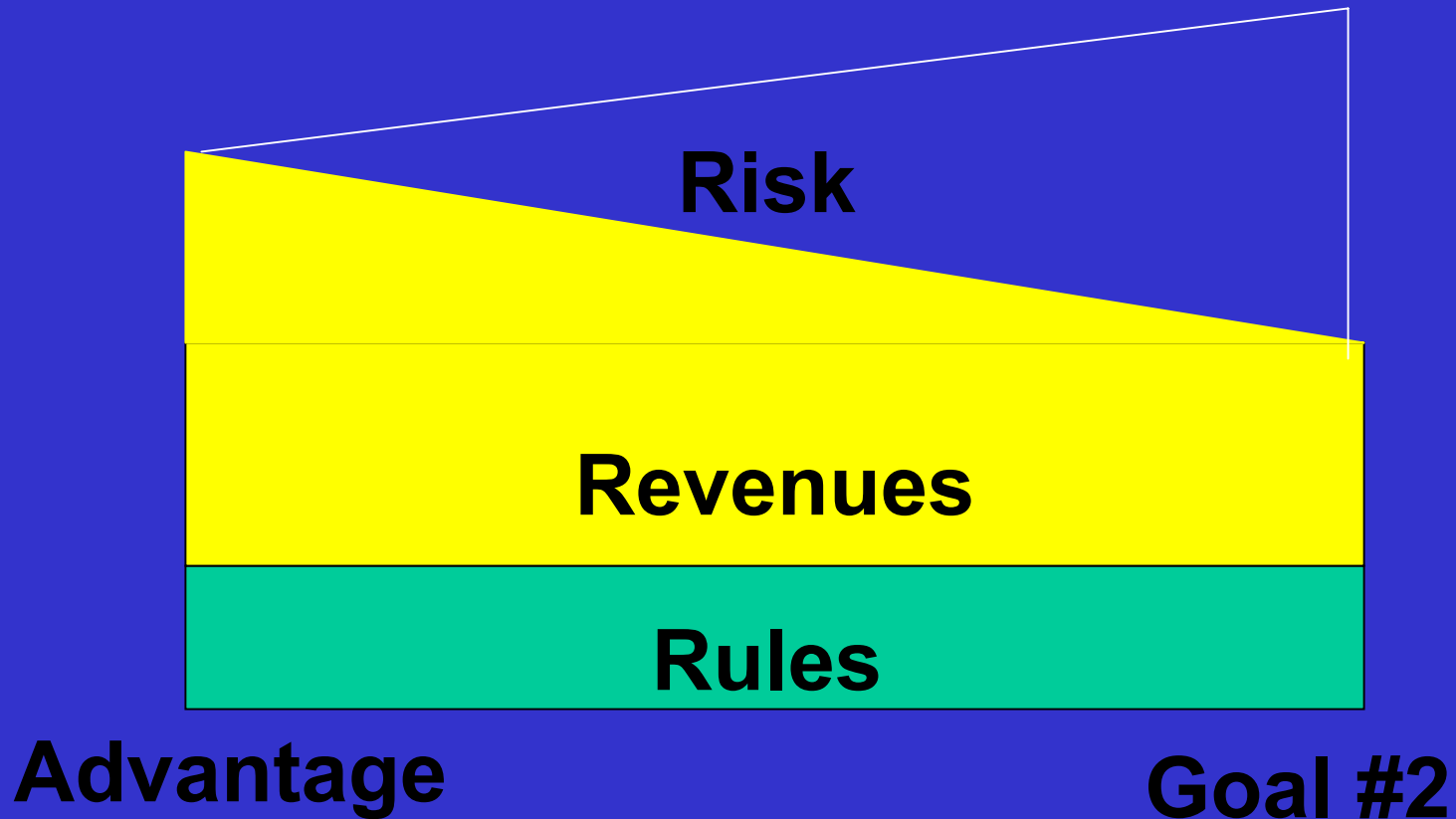
The influence of risk on decisions
is sometimes overlooked



Disadvantaged

Advantage

The Level of the Playing Field is The Sum of the Layers



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

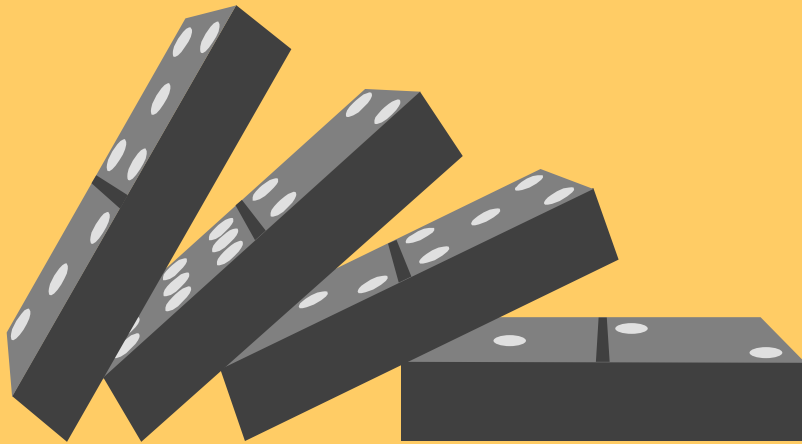
Economics toward Compliance



Crop Scouts Inspecting Corn

- **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”



April 1, 2001

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



Bt Refuge Insurance “Solution”



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

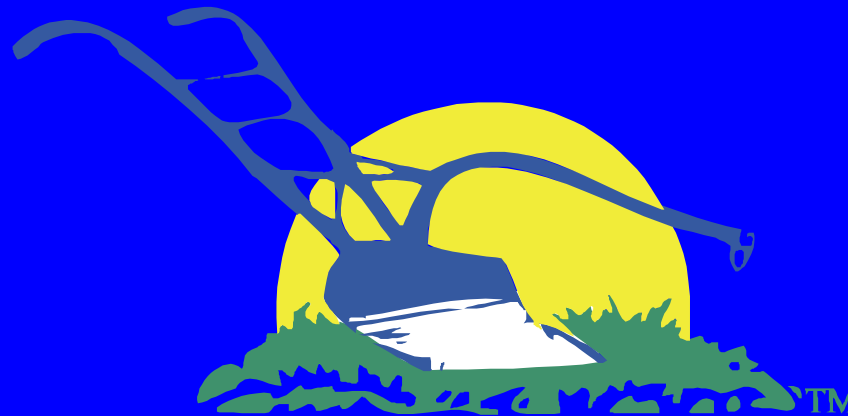
Decisions are influenced by three underlying effects.. Insurance can be used to tilt the economic playing field toward public goals.



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



IGF INSURANCE COMPANY
AGRIBUSINESS RISK MANAGEMENT SPECIALISTS

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IGF Insurance Company

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Strategic Analysis
- Oklahoma native
- Agricultural Economist
- 17 years in private
insurance industry



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% MPCCI / 33% Private)
- **Owned by Symons International Group**
(NASDAQ: SIGC)
- **Recent acquisitions: CNA Agriculture, North American Crop Underwriters, Glenn Bros.**