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# **The New Crop Insurance Reforms**

**Where We've Been;**  
**Where We're Going.**

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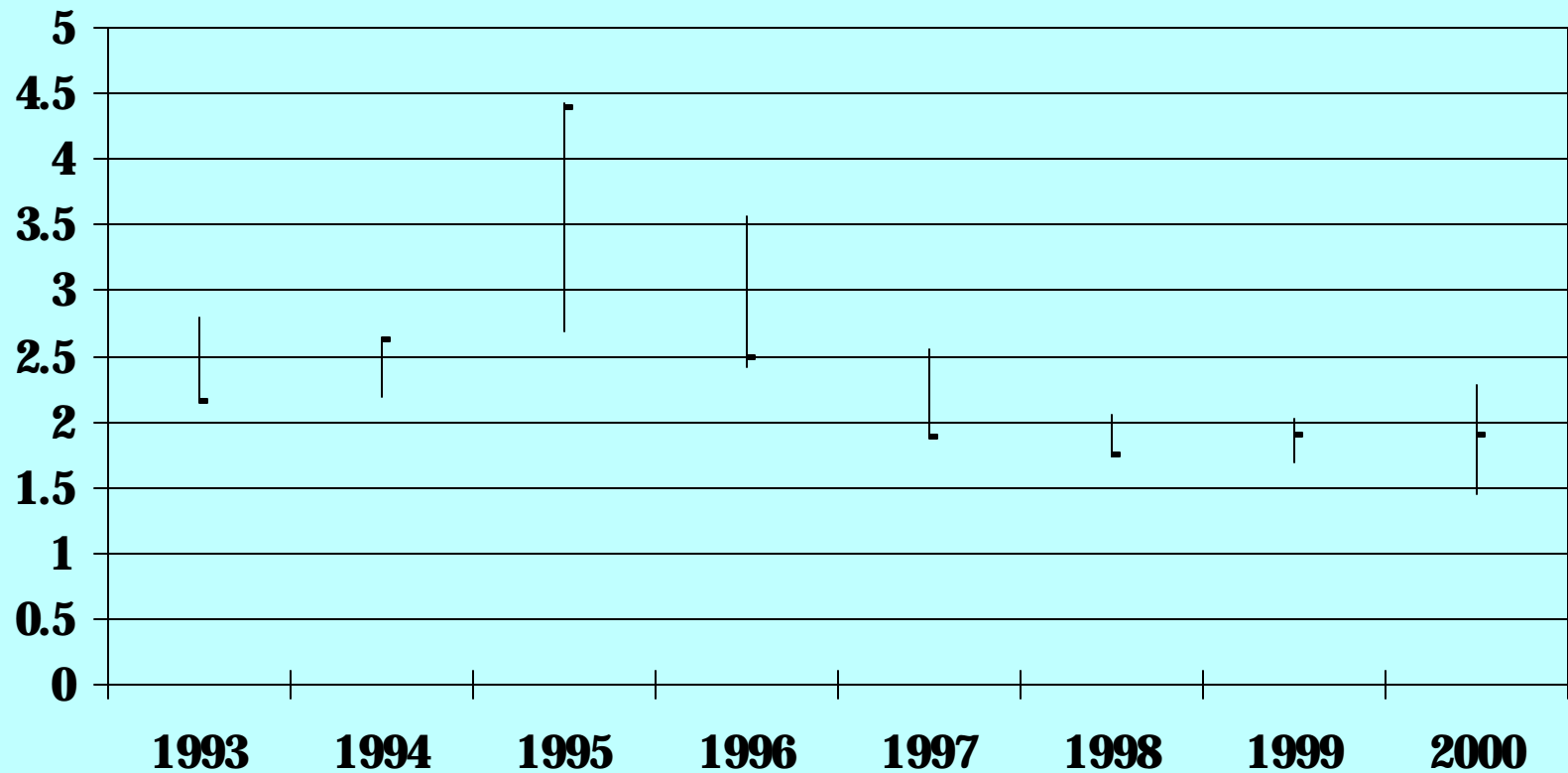
*USDA Agricultural Outlook Forum*  
*Presented February 22, 2001*

# Recent History 1: Production loss

- 1988: Drought of the century
- 1989: Drought of the century II
- 1992: Hurricane Andrew
- 1993: Midwest flood/Southeast drought
- 1995: Cotton insects/California floods/wet spring
- 1996: North Carolina hurricanes/record winter
- 1997: Northern Plains floods
- 1998: El Nino, La Nina, South/Southeast drought
- 1999: Northeast drought, Hurricane Floyd, Hurricane Irene
- 2000: Southeast drought, quality problems
- 2001: ????.

# Recent history 2: crop price slump:

*Corn price - \$ per bushel*



# Recent History 3: Federal policy

(Federal farm program spending and projections: \$ billions)



# *Risk Management tools--*

- Address limits of knowledge and control;
  - *Don't know the future;*
  - *Don't know the present either.*
- *“The information you have is not the information you want;*
- *“The information you want is not the information you need;*
- *“The information you need is not the information you can obtain;*
- *“The information you can obtain costs more than you want to pay.”*

Against the Gods: The Remarkable Story of Risk

Peter L. Bernstein

# For agriculture:

- Don't know:
  - The price;
  - The markets (mechanisms and dynamics);
  - Yields, weather, agronomy;
  - Changing government programs;
  - People - whom to trust;
  - Too often, own finances, costs, exposures.
- Can know:
  - Contracts (insurance, marketing, futures, forwards, credit);
  - Laws, regulations;
  - Neighbors - who you do trust;
  - Self, and own business facts.

## *Risk management vs. “safety net”:*

- Safety net:

Systems to protect society’s most vulnerable members or against most dramatic widespread disasters;

- Risk management:

Tools for all farmers, including successful and profitable ones, as ongoing business practices to maintain success over time.

*In agriculture, with high systemic risk and social policy content, the line is often blurred.*



*Risk management tools:*  
*Create knowledge and certainty-*

- *Public*

- *Crop insurance*
- *LDPs, NAP*
- *AMTA, farm programs*
- *FSA loans*
- *Disaster aid*
- *Research & development*
- *Outreach, education*

- *Private*

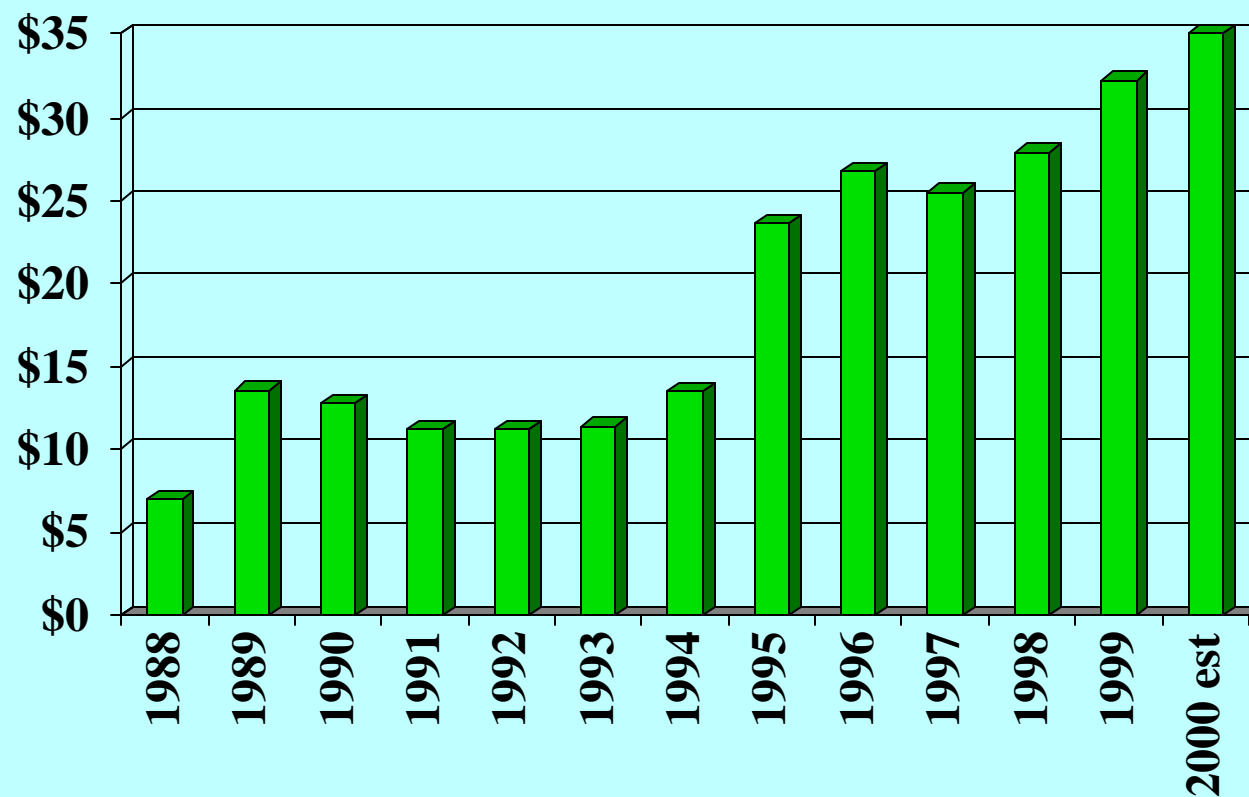
- *Crop insurance*
- *Forward contracting*
- *Futures, options*
- *Agronomic services*
- *Farm credit system*
- *Grower cooperatives*
- *Newsletters, media*
- *Grower organizations*
- *Research and outreach*

# Seven Major Reforms Since 1993

- **1993 OBRA**: loss ratio target, “actuarial soundness.”
- **1994 Reform Act**: replaced ad hoc disaster aid with expanded crop insurance, created CAT coverage.
- **1996 Farm Bill**: AMTA payments replaced price supports; crop insurance retained and expanded.
- **1996-8**: revenue insurance spread nationwide.
- **1998 Research Act**: “permanent funding” fix.
- **1998/1999 Emergency Bills**: premium discounts for buy-up coverage, income and crop loss assistance.
  
- **2000**: New Agricultural Risk Protection Act.

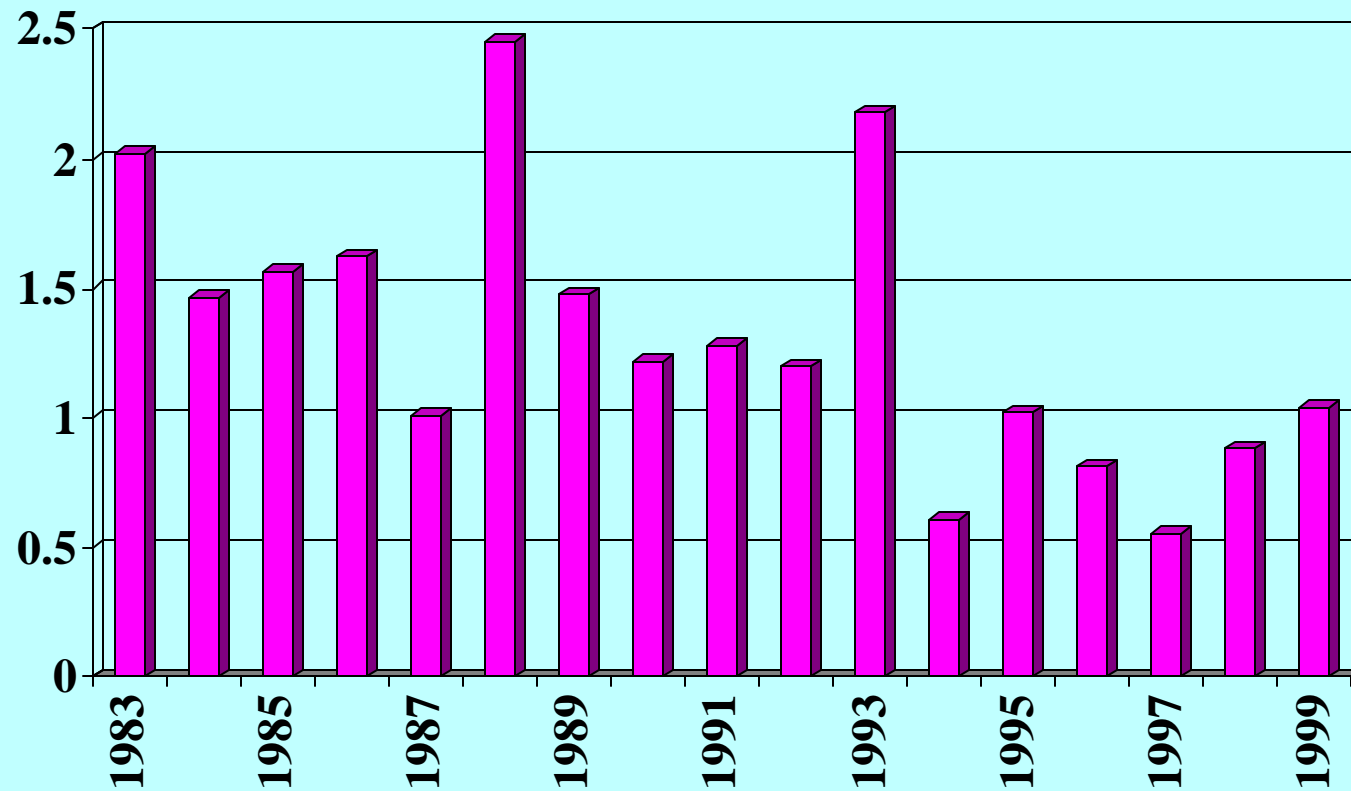
# Impacts 1: Rising Program Participation

Crop Insurance Guarantees: US Total 1988-2000 (\$ billions)



# Impacts 2: Actuarial Soundness

Crop Insurance Loss Ratios: 1983-1999



# Impacts 3: More Products & Choices...

## 1993: One Choice MPCl

### TODAY:

- **Catastrophic coverage**
- **Buy-up coverage**
- **Limited buy-up**
- **Revenue insurance plans**
  - Crop Revenue Coverage
  - Revenue Assurance
  - Group Risk Income Plan
  - Income Protection
  - AGR (Whole Farm) pilot
  - Specialty crop revenue
- **Group Risk Plan**
- **Dairy Options Pilot Program**
- **85% yield coverage**
- **Coverage Enhancement Option (CEO)**
- **New covered crops**
  - Over 138 crops, representing large majority of American production
- **Expansion of existing crops into new areas**
- **New nursery program**
- **so on, so on, so on...**

## *Goal of 2000 ARPA-*

### *Address widely-perceived crop insurance flaws:*

- Not enough farmers using it;
  - Highest levels not affordable;
  - Too many crops not covered;
  - Parts of country considered under-served;
  - Problems with multiple-year losses;
  - Concerns about program integrity;
  - NAP not working well;
  - Many farmers not using RM tools generally.
- *The Process:* Highly bipartisan, highly interactive, wide consensus.

## **2000 ARPA:**

- Invests \$8.2 billion over 5 years to make Federal crop insurance better;
- Makes buy-up coverage more affordable;
- Addresses the problem of multi-year losses;
- Expands research and development for new products and under-served areas through private incentives;
- Tightens program compliance;
- Improves NAP.

# 1. Improves the Basic Product:

- Higher premium subsidies for buy-ups
  - At all levels, at least as good as 30% discount;
- Authorizes AHP 60/60 adjustment;
- Makes NAP more like insurance
  - Eliminates the NAP area trigger;
  - Creates a \$100 fee per crop per county (same as CAT);



# *New crop insurance subsidy levels:*

*Percent of total premium paid by FCIC*

|               | <u>Current</u><br><u>APH</u> | <u>Current</u><br><u>CRC</u> | <u>New law</u> |
|---------------|------------------------------|------------------------------|----------------|
| <u>50/100</u> | 55%                          | 42%                          | 67%            |
| <u>55/100</u> | 46%                          | 35%                          | 64%            |
| <u>65/100</u> | 42%                          | 32%                          | 59%            |
| <u>70/100</u> | 32%                          | 25%                          | 59%            |
| <u>75/100</u> | 24%                          | 18%                          | 55%            |
| <u>85/100</u> | 13%                          | 10%                          | 38%            |

## 2. Encourages Expansion:

- Investment in private sector R&D:
  - \$65 mil.: reimbursements for new products:
    - \$10 mil. in 2001-2, \$15 mil. in 2003-5;
  - \$110 mil.: contracts for partnerships:
    - R&D for under-served areas and crops;
    - Studies of multi-year coverage, revenue insurance and cost of production;
    - Partnerships for new tools, weather data, so on;
    - \$20 mil. in 2001-3, \$25 mil. in 2004-5;
    - \$5 mil. ann. (\$25 mil. total) for under-served states;
- \$175 million in new seed money altogether.
  - Open to all comers, not just crop insurance companies;
- Bars direct research and development by RMA.

## *More on Expansion:*

- Mandates new pilot approaches
  - Expands general pilot program authority;
  - Livestock pilot program;
    - Limited to \$75 mil. over 5 years;
    - (\$10 mil. in 2001-2, \$15 mil. in 2003, \$20 mil. in 2004-5);
  - Premium rate-reduction pilot program;
  - Cost-share pilot program in 10-15 states.
- Expands dairy options pilot program;
- Expands Risk Management education
  - \$5 mil. ann. regional through RMA;
  - \$5 mil. ann. national through CSREES;
- Expanded role for grower cooperatives;
- Expedites FCIC board review of new products
  - 120-day time limit; expanded Board membership.

### 3. Tightens Oversight:

- Limits double insurance and prevented planting;
- Mandates coordinated plan with Farm Service Agency-
  - Annual data reconciliation;
  - FSA monitoring assistance;
  - Consultation with FSA state committees;
- Funds data-mining effort-
  - Agents or loss adjusters representing losses 150% (or an appropriate percentage) above area average;
- Strengthens “good farming practices” requirement;
- Requires expert review of policies;
- Authorizes re-negotiation of SRA with participating companies: once during the 2001-2005 period.

## *What this means:*

- For crop insurance program
  - Permanent heightened role;
- For producers
  - More choices, better service, more affordable prices;
- For RMA -- lots of work
  - New rules, new roles, new internal structures;
- For RMA and delivery partners
  - High expectations:
    - Integrity, professionalism, service.

*For ag. businesses and groups -  
Lots of opportunity:*

- Larger overall market:
  - \$2.5 billion premium, \$35 billion in guarantees;
  - \$175 million in R&D “seed money”;
- High demand for new products;
  - General rule: whoever develops a new approach first usually dominates the new market;
- Roles for new players;
  - Cooperatives, product developers, RM combinations;
- Growing need for outreach;
- Impact of new technologies:
  - E-commerce, GPS, new trading systems.

## *Roll-out so far:*

- New subsidies: in place for 2001 crop year;
- New regulations being developed:
  - Product submissions, reimbursements;
  - Double insurance, prevented planting, general provisions;
- New contracts:
  - RFPs issued for general contractors,
    - Subcontracts and work-orders to follow;
  - Requests for public input:
    - Priorities for research and development;
    - Outreach efforts in under-served States;

## *How will it work out? Three factors:*

- *Response of ag. community:*
  - Will farmers continue to use new tools and products?
  - Will the private sector step up and provide the innovation?
- *Response from Congress:*
  - Will it provide a stable environment for the new system to work?
    - Program rules, competing farm programs, political support;
- *Views of the new Administration:*
  - Internal management, funding, new roles and structures;
  - Research and development priorities;
  - Wide or narrow view of new authorities?
  - Future shape of risk management; role in Farm Bill debate.



*Reasons to be optimistic:*  
*Strengths to build on-*

- Strong customer base;
- Growing expertise throughout farm community;
- Sound product fundamentals proven by time - flexible framework for innovation.
  
- Strong acceptance from the farm community in times of change.

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