

By Sara Pankow, NAIC Research Analyst II

◆ INTRODUCTION

Adverse weather conditions such as frost, hail, thunderstorm or drought can cost a farmer a season's crop. Crop insurance is an important tool to help farmers and ranchers better manage risk. In 2012, weather-related natural catastrophes—as well as the summer-long drought, which affected the Midwest and surrounding states—caused extensive damage to crops. According to Munich Re, crop losses in the United States totaled \$20 billion in 2012, making it the largest loss in U.S. agricultural history. Approximately \$15 billion to \$17 billion of these losses are covered by the federally subsidized multi-peril crop insurance program.¹ The federal crop insurance program, which provides U.S. farmers and agricultural entities with crop insurance protection, was recently extended into the 113th U.S. Congress, which is now tasked with passing a new Farm Bill before the extension expires later this year.

◆ BACKGROUND

Crop insurance is a type of insurance that farmers and producers may purchase to help protect them against declines in crop yields and/or revenue. However, there is a deeper complexity to this product than one might initially assume. Crop insurance is divided into two categories: the federally subsidized multiple-peril crop insurance (MPCI) and the state regulated crop/hail insurance. This article will focus primarily on MPCI.

Crop/hail insurance is coverage offered by the private market and regulated by the state insurance departments. It covers a narrower variety of perils, such as hail and fire, and is not reinsured by the Federal Crop Insurance Corporation (FCIC). Some of the advantages of crop/hail insurance are its availability, as many different companies offer the product, and its flexibility, as it may be purchased at any time during the growing season.

By contrast, MPCI covers a much broader range of perils (e.g., drought, excessive moisture, freeze, disease and other natural causes) and must be purchased before planting begins. In 1938, to help agriculture recover from the combined effects of the Great Depression and severe dust storms (the Dust Bowl), the U.S. Congress passed the Federal Crop Insurance Act, which established the first federal crop insurance program. The FCIC was also created to carry out the program. Before the program was established, private insurers had difficulty providing affordable insurance products because of the inherent risks and potential for widespread catastrophic losses associated with agricultural production.

The initial federal crop insurance program was not particularly successful in that the program costs were high and participation was low. Under this initial arrangement, the federal government paid to administer the program, and farmers paid the full cost of their actuarially fair premiums. Moreover, the program had difficulty amassing sufficient reserves to pay claims and was not financially viable. The program remained limited until 1980, when it expanded crop insurance to many more crops and regions of the country. Congress enhanced the crop insurance program again in 1994 and in 2000 in order to encourage greater participation.²

In 1996, the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) was created to operate and manage the FCIC, and it is through RMA that policies are now provided for more than 100 crops. With more than 14 different types of policies and endorsements, the RMA offers a plethora of crop policies that offer protection from low personal production and revenue yields, to low community production and revenue yields.³

Subsidies were also built into the program, which increased participation significantly. The federal government subsidizes the farmer-paid premiums to reduce the cost to farmers. The federal government also provides reimbursement to the private insurance companies to offset operating and administrative costs that would otherwise be paid by farmers as part of their premium. In addition, if insurers suffer a loss, the government will backstop the losses, much as a big reinsurance company assumes the risks of individual insurers. Through this federal support, crop insurance remains affordable to a majority of America's farmers.

For a company to write federal crop insurance, they must sign the Standard Reinsurance Agreement (SRA), which is a contract between the company and the FCIC that establishes the terms and conditions for which the FCIC will provide subsidies and reinsurance on eligible crop insurance contracts sold by that company.⁴ There are currently 16 companies that have signed the 2013 SRA and are writing MPCI.

The National Crop Insurance Services (NCIS), a non-profit organization whose members are made up of private crop insurance companies, is heavily involved in both crop/hail

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¹ *Insurance Journal*, "Munich Re 2012 Cat Report Underscores Extreme Weather in U.S.; Sandy Losses," Jan. 3, 2013.

² National Agricultural Law Center, www.nationalaglawcenter.org/assets/crs/R40532.pdf.

³ For a complete list of crop policies and pilots, and their descriptions, please see the RMA's website at www.rma.usda.gov/policies.

⁴ 2013 Standard Reinsurance Agreement, www.rma.usda.gov/pubs/ra/sraarchives/13sra.pdf.

and MPCl and often works with RMA to allow for easier communication between regulators and the companies. NCIS assists their members with information management, data reporting and meeting state regulatory requirements.

◆ 2012 DISASTERS AND THEIR IMPACT ON CROP INSURANCE

Not surprisingly, the success of a farmer's yield is heavily impacted by natural disasters and catastrophes. In 2012, the Federal Emergency Management Agency (FEMA) declared 47 major disaster declarations. A major disaster is classified as one that utilizes long-term federal recovery programs.⁵ Among these, and the most notable with more than 23% (11) of the disasters, were related to Superstorm Sandy, which devastated the U.S. East Coast in October 2012.

Most significant to crop insurance, however, was the drought and record high temperatures that afflicted most of the Midwest in the summer of 2012. As of December 17, 2012, RMA reported a loss ratio of 79%, with indemnity payments of more than \$8 billion and 300,000 claims.⁶ The drought was especially detrimental to farmers, and those states most affected by severe drought had the largest percentages of claims. Nine states—Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, New Hampshire, New Jersey and South Dakota—each had a loss ratio of more than 100%, and those states represented 62% of the total indemnity payments so far for 2012.

◆ FARM BILL REAUTHORIZATION

While the FCIC is permanently authorized by the Federal Crop Insurance Act, it has been periodically modified by Congress, most recently in the 2008 Farm Bill. The 2008 Farm Bill (also known as the Food, Conservation and Energy Act of 2008) is the primary legal framework for agricultural policy.⁷ The bill, which expired in September 2012, was extended for nine months through the 'fiscal cliff' agreement passed by Congress in January 2013. The short-term extension was adopted in order to provide time to pass a full reauthorization and to prevent a spike in the price of dairy and other commodities.

There was disappointment that Congress was unable to pass a multi-year reauthorization to provide long-term certainty and stability to farmers and rural communities. The 113th Congress must start the process of crafting and passing a new farm bill before the current extension expires at the end of September 2013. Although proposals from the previous Congress placed a greater emphasis on crop insurance, new membership on both the U.S. House of Representatives' Committee on Agriculture and the U.S. Senate Committee on Agriculture, Nutrition and Forestry could change the dynamics and policy discussions in the new Congress.

◆ THE NAIC CROP INSURANCE (C) WORKING GROUP

The NAIC created the Crop Insurance (C) Working Group, which reports to the Property and Casualty Insurance (C) Committee, to offer a forum for discussing issues related to the interaction of federal crop insurance programs with state insurance regulation. One of the most recent issues the Working Group examined spread over almost four years and dealt with revisions to crop adjuster licensing.

In the 2010 SRA, new requirements for MPCl loss adjusters were introduced. These requirements were an effort to reduce fraud and create uniformity in test and licensing among crop loss adjusters. The SRA now mandates that adjusters must take crop-specific (as determined by the FCIC) tests and, if a state does not provide such a test or does not require a crop-specific license, a potential adjuster may take an FCIC-approved test in lieu of state requirements.⁸ Currently, there is only one FCIC-approved program and test, called the Crop Adjuster Proficiency Program (CAPP), which is maintained and administered by NCIS. More details of the loss adjuster requirements are described in Appendix I, Section VIII—Training Requirements, of the 2013 SRA.

In addition, the Crop Insurance (C) Working Group has been updating the NAIC *Crop Insurance Handbook*, which is an excellent tool for understanding the complexities of crop insurance. RMA and NCIS have been instrumental in the revision of the handbook, which the Working Group hopes to adopt during the NAIC 2013 Spring National Meeting. Insurance regulators and the industry continue to work together to discuss pertinent issues regarding crop insurance. The Working Group meets regularly at the NAIC national meetings in support of such efforts.

For more information on crop insurance, follow these helpful links.

- NAIC Crop Insurance (C) Working Group (www.naic.org/committees_c_ciwg.htm)
- Risk Management Agency (www.rma.usda.gov)
- National Crop Insurance Services (www.ag-risk.org)
- United States Drought Monitor (www.droughtmonitor.unl.edu)
- United States Department of Agriculture (www.ers.usda.gov)

⁵ FEMA, "The Disaster Process & Disaster Aid Programs," www.fema.gov/disaster-process-disaster-aid-programs.

⁶ RMA, "Summary of Business Report by State—2012," www.rma.usda.gov/data/sob.html.

⁷ USDA, "Farm Bill Resources," www.ers.usda.gov/farm-bill-resources.aspx.

⁸ 2013 SRA, Appendix I, Section VIII, www.rma.usda.gov/pubs/ra/sraarchives/13sraappendix1.pdf.

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