



Tom Zacharias, NCIS President

***“...Every step you take...  
every move you make...  
I’ll be watching you...”***

I recently participated in an organized symposium sponsored by the Agricultural and Applied Economics Association (AAEA). The symposium, which was held July 31-August 2 in Chicago, was entitled “*Crop Insurance: Challenges and Opportunities Facing the Crop Insurance Industry.*” To put my remarks in context, I substituted “challenge” for “obstacle” and drew from the work of Nicolla Machiavelli: “...Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage.”

The quote is a bit foreboding when one considers the source; however, it does tend to crystalize the juxtaposition between challenge and opportunity and the current state of affairs of our industry.

***“Doctor my eyes, tell me what you see...”***

As this issue of *Today*® goes to press, attention is turning front and center to the farm bill debate. At the recent Senate hearing in Washington, D.C., on July 25, 2017, Senator McConnell from Kentucky told Chairman Roberts he’d like to see the farm bill “...sooner rather than later.” Not long thereafter, at a field hearing in San Angelo, Texas, Chairman Conaway of the House Agriculture Committee stated he wanted to expedite the farm bill process. Borrowing from an old Jackson Browne tune — “*Doctor my eyes ...tell me what you see...*” I could not help but reflect upon what people are seeing and what people are saying about crop insurance these days. Here are just a few of the quotes taken from the recent Senate hearing:

*“When producers put seeds in the ground, they do not expect a hail storm to hit right as they are ready to harvest their crops. They would much rather reap the benefits of their hard work in the marketplace than receive an indemnity. The last farm bill made significant changes, and unlike previous policies, today’s commodity programs — like crop insurance — are triggered only when there is a loss.”* —**Senator Pat Roberts (R-KS), Chairman, Senate Ag Committee**

*“I have fought to expand and strengthen crop insurance for all farmers, from expanding coverage to specialty crop growers, organic producers, and beginning farmers, to providing a whole-farm option for diversified farms.”* —**Senator Debbie Stabenow (D-MI), Ranking Member, Senate Ag Committee**

*“The federal crop insurance program has been and continues to be farmers’ most important risk management tool.”* —**David Schemm, president of the National Association of Wheat Growers**

*“Farmers, their lenders, input suppliers and other stakeholders agree that crop insurance protection should remain a viable, affordable tool for managing risk.”* —**Nick McMichen, National Cotton Council**

**“The federal crop insurance program has been and continues to be farmers’ most important risk management tool.”**

—David Schemm

*“The fact that farmers are able to plant a crop the year following a major crop failure is testament to the success of the crop insurance program.”* –Robert Rynning, president, U.S. Canola Association

On one level, these statements are very gratifying and can and should be viewed with a sense of accomplishment on the part of the industry. On another level, these statements are humbling and sobering.

Of late, the lyrics of Sting and the Police have also captured my awareness. *“...every step you take, I’ll be watching you...”* The relevance of these lyrics has been driven in no small part by the recent farm bill hearings and listening sessions taking place across the country. Proponents and opponents have their eyes on crop insurance and the risk management role it plays in farm policy. The eyes on crop insurance include not only our customers — U.S. farmers and ranchers — but also state and federal regulators, members of Congress and other regulatory authorities.

If I tried to put my finger on one thing in terms of a challenge (or obstacle) and an opportunity, I would say it is the industry’s ability to continue to meet and exceed the expectations of the farmer community, industry investors, shareholders and reinsurers, as well as the expectations of agricultural policymakers and regulators.

First and foremost, the major commodity groups and farm organizations leave little doubt as to their number one priority in the upcoming farm bill, as evidenced by their most recent testimony. Here’s a sampling of what House Agriculture Committee members heard during their listening sessions this summer:

*“Farmers, ag leaders, equipment dealers — everyone involved in agriculture — agrees that crop insurance should remain a viable and affordable tool for managing risk.”* –Richard Gaona, president, Rolling Plains Cotton Growers

*“How can I and my fellow farmers stay in business? Number 1 (priority) is crop insurance. ... Crop insurance is indispensable.”* –Ben Scholz, National Association of Wheat Growers

*“Crop insurance is so vital to this state; so vital to every crop in (Texas). Whether it be corn, wheat, or cotton — all of the crops come very much into play when it comes to crop insurance.”* –Russell Boening, president, Texas Farm Bureau

*“With more frequent and intense weather patterns, rising interest rates and production costs and*



*lower commodity prices, our risk has gone up while our balance sheets have gone down. We simply have to have affordable crop insurance to manage those risks.”* –Kyle Peterson, chairman, Southern Minnesota Sugar Beet Cooperative

*“When there’s a crop loss, there’s going to be a loss of income on the farm but with a good crop insurance program, and working capital, we may help them farm another year.”* –Howard Olsen, AgCountry Farm Credit Services

*“Crop insurance is so important to me. We have three families directly that drive income from our farm and if we did not have crop insurance we would not be able to survive.”* –Noah Hultgren, Minnesota Corn Growers

In short, they want a crop insurance system that is widely available, reasonably affordable, and economically viable, as is the case with crop insurance delivered by the private sector.

What are some of the factors that lead to this level of support?

High levels of farmer participation are critical to the success of crop insurance and crop insurance agents should be applauded for their efforts. Approximately 85-90 percent of planted acres are currently insured. On the national level,

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more than 80 percent of insured acres have coverage levels of 70 percent or higher. This breadth and depth of participation prevents any calls for *ad hoc* disaster assistance and, at the same time, provides for an adequate risk pool in order for crop insurance to perform in an actuarially sound fashion. Looking back to 2011 and 2012, there are examples of the remarkable job done by industry adjusters. In 2011, farmers in Texas received \$2.6 billion in indemnities due mostly to drought. Of this, more than \$1.3 billion was paid by mid-September of that year. In 2012, of the \$17 billion paid out in indemnities, approximately \$10 billion was in the hands of farmers and rural communities before the end of December. A clear demonstration of the effectiveness of the private-sector delivery system.

Another example of the effectiveness of the public-private partnership is evidenced by the RMA’s Improper Payment Rate. The Improper Payment Rate measures the efficiency of operations of the crop insurance program and tracks: 1) payments going to the wrong recipient; 2) incorrect payments; and 3) insufficient documentation to justify a payment. For 2015 and 2016, the government-wide improper payment rate was 4.39 and 4.67, respectively. For crop insurance and the RMA, the 2015 and 2016 rates were 2.20 and 2.02, respectively.

These outcomes do not occur in a vacuum. I would refer the reader to the NCIS Just the Facts (JTF) section on the Crop Insurance Keeps America Growing website. Specifically, “What steps do crop insurers take to ensure that taxpayer dollars are efficiently used?” Quoting directly from the document...

*“The structure of crop insurance is such that companies have dollars at risk on every policy and are thus financially incentivized to reduce errors and cases of waste. Thus, the industry has exten-*

sive training and education efforts including a certified loss adjuster proficiency program in which all adjusters must participate.

The industry and the U.S. Department of Agriculture also work closely together to fight fraud, waste and abuse. There are numerous monitoring, review, audit and other oversight requirements in the Standard Reinsurance Agreement and collaborative efforts to deter and identify false claims have resulted in the pioneering use of data mining, where thousands of claim reviews are conducted to ensure a high level of program integrity.”

So, back to Challenges and Opportunities; Industry and RMA must continue to “color between the lines.” There are taxpayer and shareholder dollars at stake and both the private and public sectors must be mindful of the responsibility that entails. “...Every step you take, every move you make...” We must be ever cognizant and aware of the sense of reliance and trust that the farm community and Congressional leaders have placed on crop insurance.

Although it may sound a bit simplistic and hopefully not too ostentatious — “a” if not “the” major challenge and opportunity for the industry is to “keep on keepin’ on.”

## The NCIS Role

As most of our readers know, NCIS serves as the primary service organization for the crop insurance industry. NCIS provides a comprehensive suite of services for the industry ranging from actuarial and analytical support to the development of crop loss adjustment standards and training for company staff and loss adjusters. This is accomplished through the financial support and participation of our member companies. We serve as the only organization to fully service the industry for both state and federally regulated lines of crop insurance. Currently, all companies participating in federal crop insurance are NCIS members.

NCIS also serves a critical grassroots, “boots-on-the-ground,” role for the crop insurance industry. Our network of regional/state, as well as operational standing committees comprised of senior member company staff, routinely review industry practices and procedures with the goal of improving private-sector delivery. For state-regulated crop insurance, NCIS serves as a licensed advisory organization for the various state insurance departments, as well as interfacing with the National Association of Insurance Commissioners (NAIC) on crop insurance issues. For federally-regulated crop insurance,

NCIS serves as a liaison between the companies and RMA to facilitate communication and information exchange in order to continually improve crop insurance.

As it relates to the upcoming farm bill, NCIS will serve in an analytical and business process support role. Given its staffing expertise and experience, NCIS is uniquely positioned to evaluate various farm bill proposals for our membership, and more importantly, as was the case for the 2014 farm bill, work with RMA to effectively implement those provisions of the bill that are specific to crop insurance. In addition, NCIS will serve to facilitate industry communications during the process.

## “Turn the Page”

This issue of *Today*® introduces you to Tony and Belinda Jones, farmers in South Carolina who raise vegetable crops near St. Helena Island. The Jones have participated in two of the NCIS risk management education classes held over the last three years as part of a grant obtained through the Risk Management Agency (RMA). One of the Jones’ greatest challenges, besides deer eating their green beans, is marketing their

crops. They were thankful to be able to attend the latest three-session class on assessing and mitigating marketing risks held in Orangeburg, South Carolina, in May, June and July. We hope you enjoy meeting the Joneses! This issue also includes the NCIS agronomic research results for 2016. The industry investment of studying how crops respond to damage at various stages of growth dates back to the early 1920s, and with ever-changing agricultural technology, remains a valuable and important service that NCIS provides its members. As Drs. Zarnstorff and Houx state in their article, it is imperative that the results from 2016 not be used on their own. One year’s data, while extremely valuable, does not tell the whole story. That is why we rely so heavily on our decades of research to determine if loss procedures need to be updated or modified. We wrap up with a profile on Washington wheat farmer, Mike Abbott, who welcomed us on his farm last summer just as he was harvesting a good wheat crop...finally. The two prior years had been rough and he was happy to tell us why he appreciates having affordable crop insurance to protect his farm. We hope you enjoy all that this issue has to offer!

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