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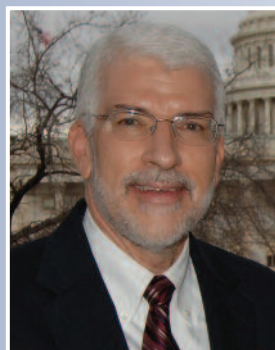
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2010 Year in Review



By Keith Collins and Harun Bulut, NCIS

Year in Review is an annual feature of *Crop Insurance TODAY*® and is intended to provide a historical record of the performance of crop insurance during the previous crop year.

Overview

The 2010 crop year started with a sharp decline in winter wheat planted area during the fall of 2009, as low wheat prices, wet weather and late harvests of 2009 row crops delayed and reduced plantings and slowed crop development. The winter of 2009-10 featured a persistent high pressure system that continually fed cold air into the central and southern states and an El Nino that helped produce stormy weather patterns across these regions. However, drier spring weather permitted rapid planting of major crops. Winter wheat production turned out only slightly below 2009 despite the acreage decline, and spring wheat production was up, with record-high yields. Warm temperatures in the major crop production areas of the Plains and Midwest states spurred rapid crop development during the summer and continued with timely harvests, although cool, wet weather affected the Northern Plains, Pacific Northwest and California. The 2010 corn harvest was down from 2009's record high, as high temperatures late in the summer cut into corn yields in the Central Corn Belt, although yields were up from a year earlier in the northern and southern tier of states. Soybean production was the second highest ever and cotton production was up over 50 percent. With the generally favorable weather and large harvests, crop insurance losses as a percent of premium under the Federal crop insurance program were the lowest since the modern program began in 1980. Regarding crop-hail

business, paid losses as a percent of premium written were lower as compared with 2008 and 2009, yet remained higher than in earlier years going back to 2003.

Key market and policy developments also highlighted 2010. Despite generally strong U.S. crop production, crop prices soared as the year unfolded, sharply raising U.S. farm income. World food and biofuel use spurred crop demand and, combined with a series of crop production shortfalls in foreign countries, put stress on already low global crop supplies, raising food price concerns in developing countries. U.S. policy focused on taming a record Federal budget deficit, which influenced the negotiations for the 2011 Standard Reinsurance Agreement (SRA). Begun in the fall of 2009, the negotiations were completed by July 2010 with the result being a reduction of funding for crop insurance of \$6 billion over 10 years. An estimated \$4 billion of that total was allocated to deficit reduction. Further funding reductions for agriculture appear likely to be made in the 2012 Farm Bill, and initial Congressional hearings on the legislation were conducted during the summer of 2010.

In keeping with past annual reviews, this article expands on this overview by reporting on the 2010 crop insurance season and highlighting the significant events that affected the program. A brief discussion of weather conditions and their impacts on crop production is followed by a review of commodity market prices. Crop-hail experience for the U.S. and Canada is presented, followed by overall results of the Federal crop insurance program. Finally, issues for the crop insurance industry from the 2011 SRA and the prospective 2012 Farm Bill are examined.

Weather and Production

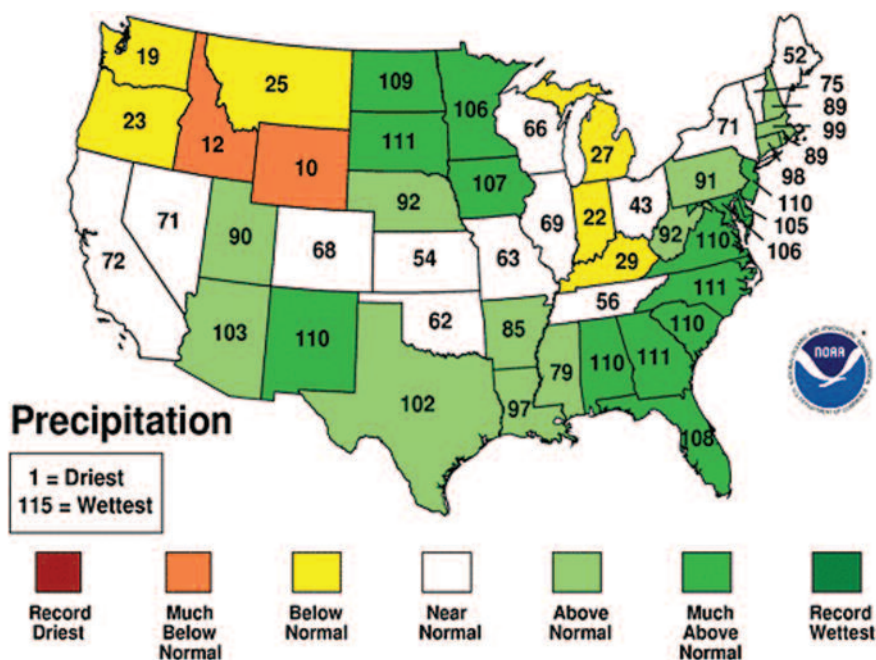
The area planted for harvest of winter wheat was 37.1 million acres during the fall of 2009, down 14 percent from 2008, the lowest since 1913. Seeding started slow, delayed by late harvests of spring crops and wet weather. Most states in hard red wheat areas reduced planted acreage, with Kansas having its lowest since 1957, Oklahoma the lowest since 1971, and Texas the lowest since 1973. In soft red states, acreages were at a record low for Illinois, Indiana, Missouri and Ohio. In the Pacific Northwest, seeding started early, and acreage was down only one percent from a year earlier. By the end of November, the winter wheat crop was rated 64 percent good to excellent, about the same as the year earlier.

The National Climatic Data Center (NCDC) reported the winter of 2009-2010 was the seventeenth coldest and fifteenth wettest ever. Winter precipitation averaged 114 percent of normal as shown in Fig. 1. It was among the ten driest winters in Wyoming and Idaho, but among the top ten wettest in South Dakota, Alabama, and seven coastal states from Florida to New Jersey. Notable events included two December blizzards in the Plains and upper Midwest, a severe January freeze in Florida, and record February snowfall in the Mid-Atlantic States. California received more normal winter snowfall after three years of drought.

With generally favorable winter and spring weather, U.S. winter wheat production totaled 1.49 billion bushels, only three percent below 2009, despite the large drop in planted area. U.S. yield was 46.8 bushels per acre, the fourth highest ever. Excellent weather in Oklahoma and Texas resulted in greater harvested acres than in 2009. Production fell in all soft red states, while production in white wheat states was up 14 percent.

Spring was warm and fairly dry for much of the nation, see Fig. 2, although there was some late spring rain in the western Corn Belt that ruined just-seeded crops. Spring rain alleviated the winter dryness in the Northwest, while California remained cool. As the spring proceeded, dryness emerged in Great Lake states and drought appeared in Gulf Coast states.

Figure 1. Winter 2009/2010 National Climatic Data Center/NESDIS/NOAA



The excellent spring weather for much of the nation facilitated rapid planting for all major crops, as illustrated in Fig. 3. This contrasted sharply with 2009, when wet, cool weather caused significant planting delays. In 2010, by April 25 (week 16), 50 percent of the U.S. corn acreage was planted, the earliest date that planting has ever reached 50 percent. At that point, corn planting progress

was 127 percent of the previous five-year average pace. Corn plantings finished at 88.2 million acres, up two percent from 2009. Similarly, planting for soybeans and spring wheat advanced rapidly. Soybean planted area at 77.4 million acres was nearly identical with the 2009 level. Barley and oats planting was ahead of normal, and sorghum was near normal. Acreage fell 2.2

Figure 2. Spring 2010 National Climatic Data Center/NESDIS/NOAA

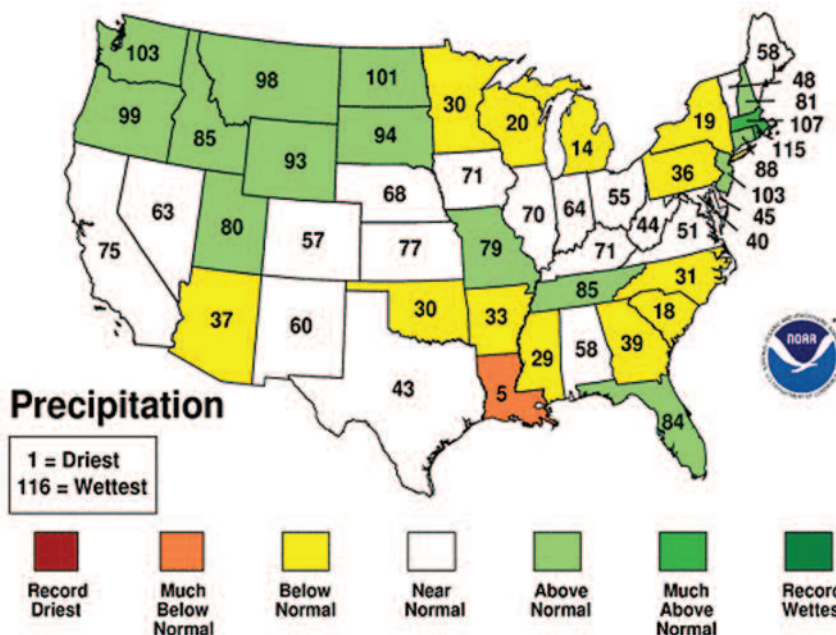
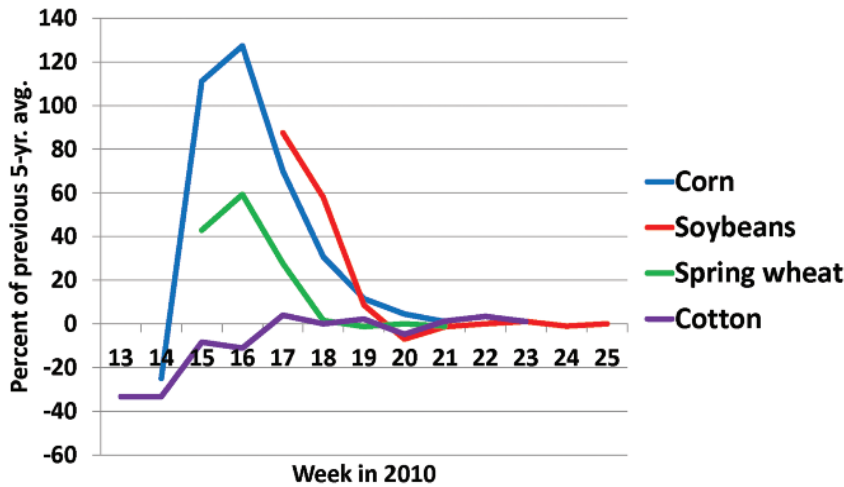


Figure 3. Planting Progress: Share of Crop Planted Compared with 2005-09



million from 2009 for these three feed grains. Upland cotton started slowly in California but quickly caught up to normal progress and U.S. planted area was 11.0 million acres, up 20 percent, reflecting improved price prospects relative to other crops. Rice progressed rapidly except in cool, wet California. U.S. rice acreage planted totaled 3.6 million, up 16 percent.

During the summer, the Plains and the Midwest states experienced above-normal temperatures and ample rain causing most crops to develop and mature quickly, enabling a rapid harvest. High temperatures and drought in the eastern Corn Belt and South reduced prospective yields. Some northern and northwestern

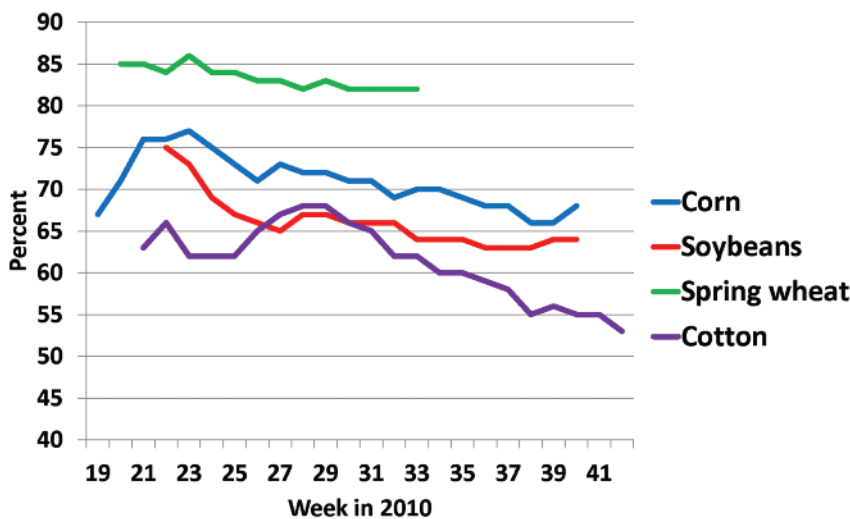
areas faced cool, damp weather that delayed small grain development and harvesting. California also had delayed development and harvest for crops such as rice and cotton.

Overall major crop conditions remained favorable throughout the growing season and yields of most major crops turned out high or record high. Fig. 4 indicates the portion of key crops rated good or excellent in the weekly survey conducted by the National Agricultural Statistics Service. All major crops had 50 percent or more of the crop rated good or excellent throughout the growing season. Spring wheat had the highest ratings, and 2010 production of 616 million

bushels was five percent more than 2009 and the third highest ever. U.S. yield was a record-high 46.1 bushels per acre, breaking the prior record set in 2009. U.S. corn production was 12.4 billion bushels, five percent below the record-high of 13.1 billion produced in 2009. Yield was 152.8 bushels per acre, 11.9 bushels below 2009's record 164.7 bushels. Yields were down across much of the Corn Belt, Central Great Plains, Ohio Valley, and Mid-Atlantic States compared with 2009, with high temperatures a contributing factor. However, yields were up in the Southern Great Plains, Delta and Southeast regions and were at record highs in Michigan, Minnesota, North Dakota and Wisconsin. U.S. soybean production was 3.33 billion bushels, down one percent from 2009 and the second largest ever. Average yield was 43.5 bushels, 0.5 bushels below 2009's record high. Hot, dry weather during blooming and pod development reduced yield potential. Upland cotton production was 17.8 million bales, 51 percent over 2009. The U.S. average yield was estimated at 814 pounds per acre, up 48 pounds from 2009. With expanded acreage, rice production in 2010 was a record-high 243 million hundredweight (cwt), 11 percent above 2009, despite an average yield of 6,725 pounds per acre that was 360 pounds below the 2009 yield.

As calendar 2010 closed, a developing La Niña contributed to drought across the South, dry conditions in the Southern Plains and Southwest and cold, stormy conditions in the Pacific Northwest to the Upper Midwest.

Figure 4. U.S. Crop Conditions: Share of Crop Rated Good to Excellent



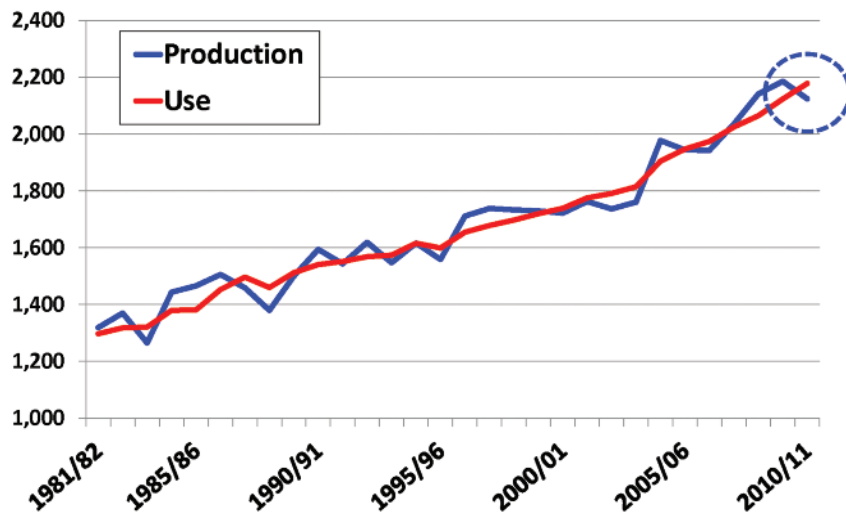
[Information for this section was obtained from the publication of the National Climatic Data Center at the National Oceanic and Atmospheric Administration "State of the Climate National Overview for Annual 2010", published online, December 2010, and retrieved on March 18, 2011 from <http://www.ncdc.noaa.gov/sotc/national/2010/13> and USDA publications, including "Global Crop Production Review, 2009", "Prospective Plantings March 2010", "Crop Production 2010 Summary", and various issues of the "Weekly Weather and Crop Bulletin" and "World Agricultural Supply and Demand Estimates Report".]

Commodity Markets and Prices

Global commodity markets tightened significantly during 2010, and midway through the marketing year, season-average prices received by farmers were forecast by USDA to set new record highs, surpassing the previous records set in 2008. With growth returning to the global economy after the financial crisis of 2008-09, particularly in emerging markets, global food consumption has continued to surge ahead. Demand growth has been especially strong in Developing Asia, including China, as well as Latin America. Fig. 5 shows the pickup in global use of all grains and oilseeds since 2003. U.S. ethanol producers are forecast to purchase 40 percent of 2010 U.S. corn production. In the face of the strong global demand for food, fiber and renewable fuel, a series of weather problems caused global grain and oilseed production to decline below total use, cutting into global reserves. Drought in Russia, excess moisture in South Asia, floods in Australia, dry weather in Argentina and the decline in the U.S. corn crop all contributed to the reduction in global grain and oilseed production in 2010.

Global consumers looked to the United States to help offset their reduced production during 2010-11. Increased U.S. production enabled large increases in U.S. wheat and cotton exports. However, low stocks and reduced U.S. production of corn and soybeans resulted in large price increases needed to ration tight supplies among uses. Fig. 6 illustrates U.S. carryover stocks of corn and soybeans as a percent of total use, a measure of the tightness of crop markets. Corn carryover stocks on September 1, 2011 are forecast by USDA to be only five percent of 2010-11 total use of corn, tied with 1995-96, and the lowest since at least 1960. Soybean stocks are expected to be only 4.2 percent of use, the lowest ever. Season-average farm prices, which are well correlated with stocks-to-use ratios, are expected to reflect this historic tightness. Corn farm prices for 2010-11 are forecast to average a record high

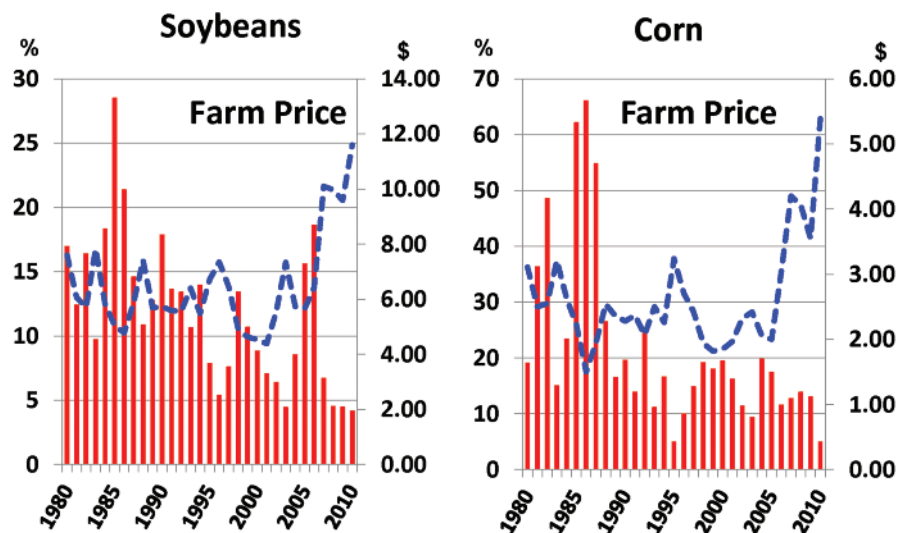
Figure 5. World Production and Use of Grain and Oilseeds



\$5.40 per bushel, compared with the previous record of \$4.09 in 2008-09. Soybean prices are forecast at a record \$11.60 per bushel, compared to the prior record of \$10.10 in 2007-08. Similarly, cotton prices are expected to be 81.5 cents per pound, the highest price since at least 1965. The all-wheat farm price, forecast at \$5.70 per bushel, is up sharply but remains below the 2008-09 record of \$6.78 per bushel. Rice, which is in ample supply, is expected to average \$12.50 per cwt, down from 2009-10 and well below 2008-09's average farm price of \$16.80 per cwt.

The overall effect on farm prices due to 2010's strong export demand, rising oil prices and farm production costs, biofuel demand, weaker foreign currency value of the dollar and reduced global crop production is summarized by the index of prices received by farmers for all crops, Table 1. The index for calendar year 2010 was up slightly from 2009 and below 2008. However, the rapid increase in 2010 crop farm prices occurred during the second half of the year, the main harvest period, and by December 2010, the monthly index had reached 175.

Figure 6. U.S. Stocks/Use and Prices



**Table 1. Index of Farm Prices Received by Producers, All Crops
1990-92 = 100**

	2005	2006	2007	2008	2009	2010	Dec. 2010
Index	110	120	142	169	150	156	175

Source: NASS Agricultural Prices

Table 2. Revenue Policy Base Prices 1/

Crop	2008	2009	2010	Change
Wheat, winter (\$/bu) (KCBOT)	5.88	8.77	5.42	-38%
Wheat, spring (\$/bu)	11.11	6.20	5.43	-12%
Corn (\$/bu)	5.40	4.04	3.99	-1%
Soybeans (\$/bu)	13.36	8.80	9.23	5%
Cotton (\$/bu)	0.77	0.55	0.72	31%
Rice (\$/cwt)	14.40	13.10	14.00	7%

1/ For Revenue Assurance plans.

Source: Various RMA Manager's Bulletins

Table 3. Revenue Policy Implied Price Volatilities 1/

Crop	2008	2009	2010	Change
Wheat, winter (KCBOT)	0.24	0.33	0.27	-18%
Wheat, spring	0.33	0.25	0.24	-4%
Corn	0.30	0.37	0.28	-24%
Soybeans	0.31	0.31	0.20	-35%
Cotton	0.20	0.27	0.21	-22%
Rice	0.15	0.22	0.19	-14%

1/ For Revenue Assurance plans.

Source: Various RMA Manager's Bulletins

Figure 7. Weekly Corn Futures Prices Life of Dec. Contracts 2006-2010

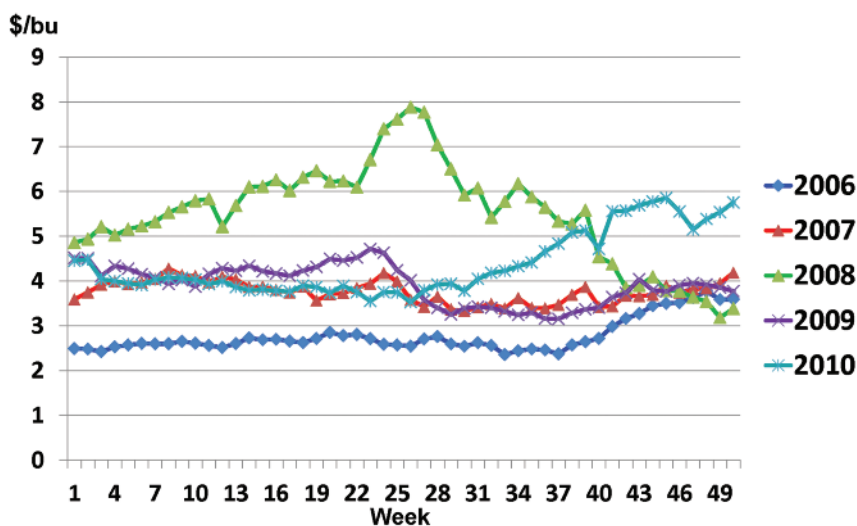


Fig. 7 shows the general pattern of 2010 crop year prices for major crops, using as illustration the December futures contract prices for corn on a weekly basis for 2006 through 2010. In contrast to the sharp increase in the first half of 2008 that dissipated as the large harvest became known, December futures prices in 2010 began rising midway through the year as global crop production problems began to surface.

Table 2 provides the base prices for revenue policies for major crops over the past several years. In 2008, all base prices for spring-planted crops were record highs and declined in 2009. In 2009, the base price for winter wheat set a record high. Expectations were that market prices for major spring-planted crops would decline in 2010, except for cotton, and base prices for spring wheat and corn did decline, while soybean base prices were up slightly. Cotton base prices increased markedly in response to expected tighter markets in 2010-11. The 2010 winter wheat base price fell from the 2009 record as a large build up in wheat stocks was expected for the 2010 wheat marketing year at the time the base price was determined.

Implied volatility factors, which are determined from options contracts, are used in the calculation of premium rates for revenue policies. Table 3 shows implied price volatilities for major crops. After an increase in 2009 for most crops, volatilities declined for all major crops in 2010, which contributed to premium rate reductions.

Fig. 8 shows the effects of price movements on the base and harvest prices for the 2010 CRC and RA plans of insurance for the major crops (corn, soybean, winter and spring wheat, cotton and rice).

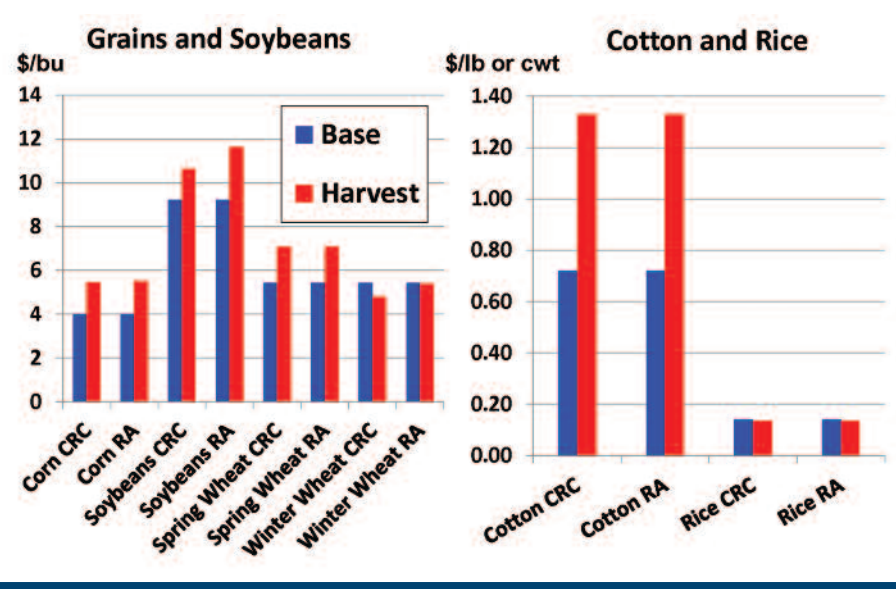
During 2008, the last year of a large run-up in crop prices, harvest prices turned out mostly below base prices, which triggered indemnities for many revenue policies. However, consistent with the increase in market prices that occurred during the second half of 2010, and illustrated by the behavior of corn prices in Fig. 7, harvest prices for major spring-planted crops exceeded base prices in 2010.

In 2008, harvest prices for corn were 24 percent below base prices for CRC plans of insurance and 31 percent lower for RA plans, and again in 2009, corn harvest prices were below base prices. In contrast, 2010 corn harvest prices exceed base prices by 37 percent for CRC and 38 percent for RA. For soybeans, harvest prices were below base prices in 2008, unlike 2009 when harvest prices exceeded base prices as a reduced South American soybean harvest strengthened fall prices. In 2010, soybean CRC harvest prices were 16 percent above base prices and RA harvest prices were 26 percent above base prices. Spring wheat and cotton harvest prices in 2010 also exceeded base prices, while rice harvest prices, with ample stocks, were three percent below base prices. Cotton was a remarkable story, with harvest prices 85 percent higher than base prices in 2010 as global cotton use is exceeding production for the fourth consecutive year. With U.S. cotton exports up sharply, U.S. ending stocks for 2010-11 are forecast at only 1.9 million bales, one million bales below last season and far below 2007-08's level of 10.1 million. The expected stock level would be the lowest since 1924, and the stocks-to-use ratio of 10 percent would be a record-low.

The 2010 harvest price for winter wheat (Southern Plains) for CRC was 12 percent below, and RA was one percent below, the CRC and RA base price of \$5.42 per bushel. The base price was established in the summer of 2009, well before the price increases in 2010. The harvest prices were determined before the global production problems that began with the drought in Russian and Kazakhstan and the excessive rain in Canada were fully determined and global wheat prices took off. The 2009 winter wheat harvest prices for the CRC and RA plans were also lower than base prices. Harvest prices in both 2009 and 2010 reflected expected increases in wheat carryover stocks in 2009-10 and again in 2010-11 at the time the harvest prices were being determined.

[Information for this section of the article was obtained from the Risk Management Agency, National Agricultural Statistics Service, USDA's "World Agricultural Supply and Demand Estimates Report," the commodity outlook reports of USDA's Economic Research Service, and data from Barchart.com.]

Figure 8. Prices for Major 2010 Crop Revenue Policies



Federal Crop Insurance Program Experience

At the time this article was written, the crop insurance program loss ratio (gross indemnities divided by gross premium) for the 2010 crop year was estimated at 0.52, the lowest since the public-private program began in 1980. This experience continued the unusually low loss experience evident since 2004, except for 2008 which had a more expected loss ratio of 0.88, see Table 4. The total liability, premium written, and indemnities paid in 2010 were below the levels of 2009 and the records set in 2008. The acres insured were also below those in 2008 and 2009 and mainly reflected a decline in acreage planted to all crops, the termination of the Rangeland plan of insurance and lower participation in the Pasture, Range and Forage plan of insurance.

Results differed for the various insurance plans (final reinsurance data for the group risk plans, GRP and GRIP, were not available at the time this article was written). The U.S. loss ratio for individual farm revenue protection (including the CRC, RA, IP and IIP plans of insurance) was 0.54, similar to the U.S. loss ratio for all plans. The rainfall and vegetative area plans for pasture, range and forage had loss ratios of 0.69 and 0.04, respectively. Actual Production History (APH) yield plans had a loss ratio of 0.62, while all remaining plans of insurance (excluding GRP and GRIP) had an overall loss ratio of 0.23. The loss ratio on revenue plans was below that on APH plans, similar to 2009, but unlike 2008 when harvest prices fell below base prices and triggered large indemnities on revenue plans. In 2010,

Crop Year	Liability	Premium	Indemnity	Acres	Loss Ratio
2004	46,600	4,186	3,209	221	0.77
2005	44,259	3,949	2,367	246	0.60
2006	49,919	4,580	3,504	242	0.77
2007	67,340	6,562	3,548	272	0.54
2008	89,897	9,851	8,679	272	0.88
2009	79,567	8,949	5,221	265	0.58
2010	78,003	7,582	3,980	256	0.52 1/

1/ As of March 18, 2011; data not complete
Source: RMA Summary of Business Reports, March 15, 2011

Figure 9. Numbers of States with Loss Ratios in the Indicated Range

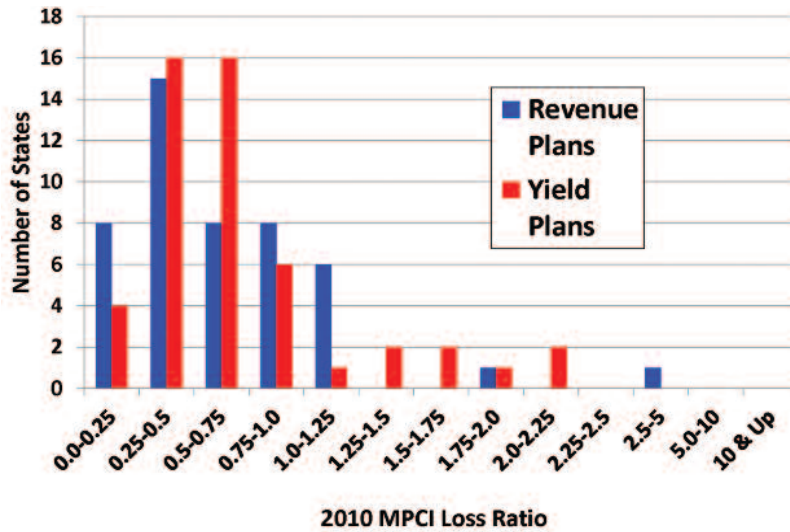
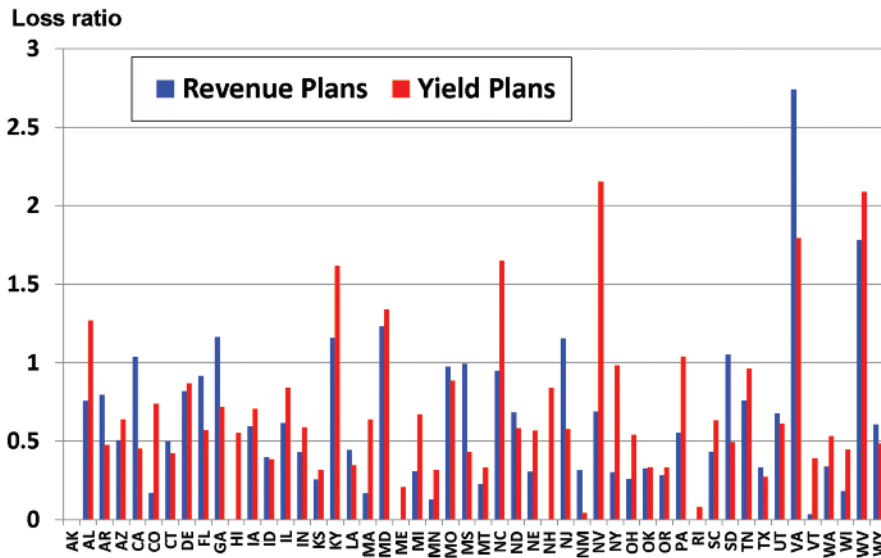


Figure 10. State Loss Ratios by State, 2010



0.455 million units were indemnified, compared with 0.595 million in 2009 and 1.049 million in 2008.

Fig. 9 shows how widespread the excellent loss ratios were for revenue and yield-based plans of insurance. Loss ratios for the revenue-based plans in the majority of states (31 out of 47) were below 0.75. Loss ratios for yield plans were somewhat higher, but 36 of 50 states had loss ratios below 0.75.

Fig. 10 illustrates the loss ratios by state. Of the 50 states, a majority (30) had a higher loss ratio for yield plans than

revenue plans. Some states had loss ratios for revenue plans that were much higher than yield plans, including California, Georgia, Mississippi, New Jersey, South Dakota and Virginia. Revenue policies are only a small fraction of plans sold in California and the relatively higher loss ratio was due to losses on cotton, which developed slowly all summer. Georgia had higher loss ratios on revenue policies due to cotton and soybeans, which were affected by hot, dry weather in late summer. The high temperatures and dry weather were

also a factor in revenue policy losses in New Jersey (soybeans) and Virginia (cotton and corn). Mississippi (corn) and South Dakota (corn and soybeans) faced some losses due to price declines but excess moisture and rain appear to have been large factors.

The map in Fig. 11 shows gross loss ratios by state. States where the loss ratio exceeded the U.S. statutory target (1.00) are shown in blue or red. The states are Kentucky, Nevada, North Carolina, West Virginia and Virginia, which together accounted for \$262 million in gross premium in 2010, only 3.4 percent of the U.S. total. The effect of the late season hot and dry weather in the Southeast is evident on the map.

[Information for this section of the article was obtained from Summary of Business reports released by the Risk Management Agency.]

U.S. Crop-Hail Experience

For the U.S., crop-hail insurance generally refers to policies in which direct damage to hail is the primary cause of loss. In addition to hail damage, many policy forms carry endorsements for additional perils. For the most part, the added perils include wind and fire, although there are exceptions. For the purpose of this article, results will be reported for all losses on hail policies, including the experience of non-member companies not included in NCIS' *Annual Statistical Summary* reports.

Premium for 2010 was \$681 million (much higher than 2009, up a bit from 2008, and the highest in the last seven years), providing more than \$27 billion in privately insured crop-hail insurance coverage for U.S. farmers, Table 5. From a profitability standpoint, 2010 was a better year for the industry compared with 2008 and 2009. Nevertheless, losses of \$459.3 million exceeded the earlier years going back to 2003, and particularly were more than twice the amount paid in 2006. The country-wide loss ratio of 0.67 (paid losses divided by premium written) improved compared with ratios in

2008 and 2009 and yet remained above those going back to 2003.

Large storms contributed importantly to losses for the year. The largest one-day storm in 2010 occurred in Minnesota on June 25, resulting in more than \$14.4 million dollars paid out to farmers. The top 10 storm events for the year, measured in terms of losses, occurred in Minnesota, Kansas, Iowa, South Dakota, Montana, North Dakota, Texas, with over \$59 million being paid out in these states. Of the top 50 most damaging storms, 17 occurred in the month of July, 16 in June, six in August, and four in October.

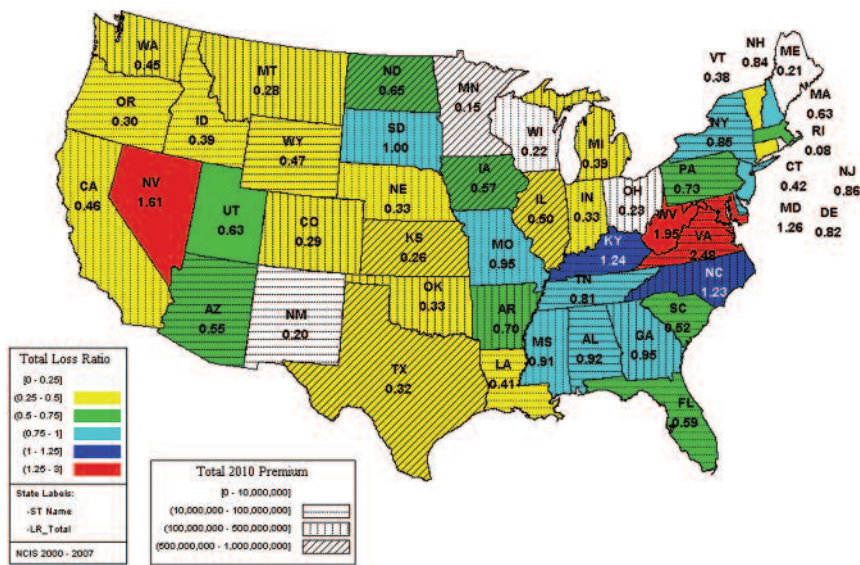
On a county by county basis, Nebraska counties took the top four spots for the largest payouts: \$12.96 million in Holt County, \$9.4 million in Kearney, \$5.97 million in Dawson County, \$5.4 million in Lincoln County. The fifth largest payout was \$5.2 million in Blue Earth County, Minnesota. The top five losses on a county basis came down by nearly 45 percent compared to the top five in 2009 and became slightly lower than those in 2008.

Crop-hail loss ratios by state are shown in Fig. 12. Colors identify states with similar loss ratios, and shading is used to identify states with similar premium volume. Crop-hail insurance was written in 43 states in 2010. Of these, nine states had a loss ratio in excess of 0.70. Arizona, with premium over \$2.25 million, had the highest lost ratio of 2.5 and is in red on the map. In addition, Montana (\$22.4 million premium), Nebraska (\$103.6 million premium), Minnesota (near \$60 million premium), and Wyoming (\$1.72 million premium) had loss ratios ranging from 1.15 to 1.02, respectively. The loss ratio for the remaining states was less than 1.00. California, with a premium exceeding \$1.27 million, had a loss ratio of 0.99. Utah had a loss ratio of 0.85 albeit with a very small premium of just over \$53,000. Finally, Idaho, with a premium over \$10.5 million and New Mexico with a premium close to \$1.9 million, had loss ratios 0.74 and 0.73, respectively.

[Information for this section was obtained from NCIS' Insured Crop Summary and claim files.]

Crop Year	Liability	Premium	Losses	Loss Ratio
2004	\$13,942	\$414.0	\$241.9	0.58
2005	13,879	412.2	183.7	0.45
2006	15,529	403.8	202.2	0.50
2007	19,373	487.8	234.9	0.48
2008	27,525	668.0	554.6	0.83
2009	25,479	619.8	565.7	0.91
2010	27,158	680.9	459.3	0.67

Figure 11. 2010 MPCII Premium and Loss Ratios - All Plans Combined



Canadian Crop-Hail Experience

Crop-hail business in Canada is primarily written in the prairie provinces of Alberta, Manitoba and Saskatchewan. After a low-loss year in 2009, crop-hail losses increased sharply in 2010. Payouts totaled C\$155 million (Canadian), over double the level of 2009 but still less than half the record losses of 2008. Total premium for 2010 for all three provinces was C\$264 million which resulted in a loss ratio of 0.59, compared with 0.29 in 2009 and the severe loss ratio of 1.18 experienced in 2008.

Manitoba had premiums of C\$37.6 million, down 12 percent from 2009 and payouts of C\$14.8 million. The loss ratio of 0.39 exceeded 2009's 0.29. About 2,200 claims were filed, below 2009 and the five-year average.

While Alberta had frequent storms all summer, results were fairly favorable. Losses totaled C\$38 million, down 22 percent from 2009 but similar to the 10-year average. Premiums were C\$62 million, up from 2009, and the loss ratio was 0.61 down from 0.83 in 2009.

Saskatchewan, the largest province in terms of hail business, had about C\$166 million in premium for the year, down from C\$172 million in 2009. Losses in 2010 were C\$103 million and the loss ratio was 0.62. This experience was much different from 2009 when payouts were a record low of \$23.4 million and the loss ratio was only 0.136. The number of claims rose from 4,075 in 2009 to 11,600 in 2010 with storms generally lighter but more widespread.

[Information for this section of the article was taken from the *The Hail Report*, a publication

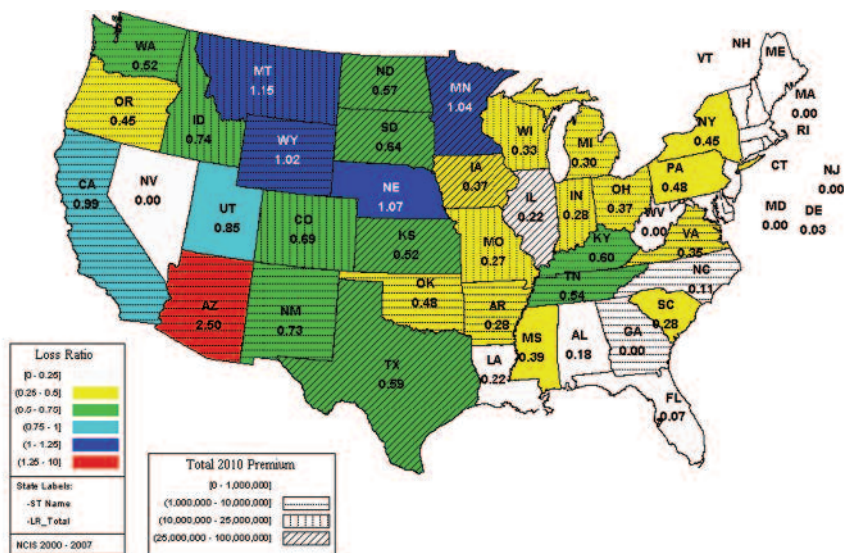
sponsored by the Canadian Crop Hail Association. *The Hail Report* is produced every two weeks during the hail season.]

Program and Policy Developments

The first half of 2010 featured the conclusion of the renegotiation of the Standard Reinsurance Agreement (SRA). In late 2009, RMA announced its intention to terminate the 2005 SRA and negotiate a new SRA for the 2011 reinsurance year. In December 2009, RMA released the first draft of the 2011 SRA seeking to reduce program funding by \$8.4 billion over 10 years. After industry objections, two additional drafts and technical corrections, the SRA negotiations were completed in mid-2010, and the 2011 SRA was signed by the then-16 companies. The final version was estimated by RMA to reduce program funding by \$6 billion over 10 years. Key features of the final SRA include two state groups for reinsurance terms, with potential underwriting gains reduced for five Corn Belt states (Group 1) and increased for all other states (Group 2 and 3), a net book quota share set at 6.5 percent, with 1.5 points of underwriting gains returned to the companies operating in underserved states (Group 3), a cap on administrative and operating expense (A&O) payments and a cap on agent compensation.

Implementation of the SRA occupied the remainder of 2010. A key issue was the application of the caps on A&O payments and

Figure 12. 2010 U.S. Crop Hail Premium & Loss Ratios – All Crops, Losses, Plans Combined



agent compensation. Under the SRA, companies cannot compensate agents in excess of their total A&O payments. However, these payments are not known until far after premiums are collected, forcing companies to estimate total industry A&O and their share of total A&O and then only pay out a prudent level of compensation that would avoid exceeding the unknown dollar level of the agent cap. In addition to the difficulty of addressing the amount and timing of agent compensation, the definition of compensation had to be developed.

Industry provided recommendations to RMA, and RMA ultimately issued a Managers Bulletin defining compensation subject to, and exempt from, the agent cap. In a move related to the SRA, the administration announced at the end of 2010 that part of the \$6 billion SRA savings would be used to provide a “good performance refund” of premiums paid to producers who had a limited number of losses in past years. The final rule for the program had not been issued at the time this article was written.

The 2008 Farm Bill expires in September 2012, and 2010 marked the beginning of the discussion in Congress on the successor legislation. The House

and Senate Agricultural Committees held hearings on the prospective Farm Bill during the summer of 2010 on a wide range of issues. While witnesses representing farm and commodity groups, academics, farmers and others raised general issues of concern about the affordability and coverage of crop insurance, few specific recommendations were made and no conclusions were reached by Congress. With a change of leadership of the House Agriculture Committee as a result of the November 2010 elections, the 2012 Farm Bill is now expected to be developed during 2012 rather than during 2011. The large, continuing Federal budget deficit is expected to place very tight budget constraints on program spending authorized in the next Farm Bill.


Conclusion

The crop insurance industry again delivered essential services and benefits to U.S. agricultural producers in a timely way in 2010. While liability, gross premium, and insured acres all declined for a second

straight year in the Federal crop insurance program, participation remained high. Lower wheat and corn base prices and reduced volatility factors for all major crops contributed to the reduction in liability and gross premiums. A large reduction in insured pasture, range and forage land accounted for the decline in insured acres since 2008. However, insured acres, excluding pasture, range and forage land, was the highest ever in 2010. Rising prices and generally good yields reduced the frequency of claims and losses in 2010. The estimated loss ratio of 0.54 was the lowest in the history of the modern program, which dates to the Federal Crop Insurance Act of 1980. The companies approved to provide crop insurance coverage continue to be financially sound, with the strength to meet the financial obligations that stem from a range of natural disasters. The Crop-hail program, which provides protection against localized damages that might otherwise be noninsured losses for producers under the Multiple Peril Crop Insurance program again

provided essential protection to producers during 2010.

The Federal crop insurance program has emerged as the most essential component of the farm safety net. As the Congress approaches the 2012 Farm Bill, while grappling with record-high Federal deficits and debt, the fundamental contribution of crop insurance in protecting farm production and farmers from risk must be recognized and maintained. Crop insurance provides individualized risk protection, requires producers to offset part of the costs of the program, pays claims promptly, facilitates pre-harvest marketing, ensures access to credit and has a very strong loss adjustment process that ensures producers receive only the payments they merit. Moreover, crop insurance companies have created a delivery system that features substantial invested assets in people, places and technology that should be leveraged to the fullest extent possible by the government as a means to increase the efficiency of delivering risk management opportunities to producers.



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