(Note: the data discussed in this article are as of April 21, 2014, unless indicated otherwise.)

Overview

After the devastating drought of 2012, U.S. producers and the crop insurance industry experienced a more routine year in 2013, but still one with atypical events. Drought was eliminated in many areas, growing conditions turned out much more favorable and yields were near trend for many major crops, enabling farmers to harvest large production levels. The year also saw the Federal Crop Insurance Program attain several significant milestones. Total insured liability of nearly $124 billion was the highest ever, while gross premium of $11.8 billion was the second highest ever and insured acres at 296 million was a record high. Strong insurance policy base prices for major crops and the continuing increase in coverage levels contributed to the high insured value. Despite large production levels, the program’s gross loss ratio—in indemnities divided by premiums—turned out to be 1.00 as of this writing, coming in behind 2012 as the second highest in the past decade.

The loss ratio was pushed up by a sharp drop in market prices of major crops caused by the rebound in crop production. The price declines, along with adverse weather affecting certain regions and crops, caused many losses on both revenue and yield policies. The $11.8 billion paid in indemnities as of April 21, 2014 was the second highest ever. The highest indemnities by state were paid in Iowa, $2.0 billion; followed by Texas, $1.5 billion; and Minnesota, $1.3 billion. Corn had the highest level of claims at $5.7 billion, followed by wheat at $2.3 billion and soybeans at $1.2 billion.

The high level of total claims has resulted in back-to-back subpar financial returns for crop insurance companies and the first back-to-back annual gross underwriting losses since 1999 and 2000. The drought of 2012 caused large underwriting losses both for the government and the companies, offsetting prior years of underwriting gains. The companies’ rate of return on retained premium is estimated as a negative 15 percent for 2012, and the losses incurred in 2013 will likely result in a rate of return on retained premium in the mid-single digit range. Companies need successive years of favorable returns to build surpluses to meet the losses that come with catastrophic years.

With crop insurance providing financial support, farmers were able to plant 325 million acres in the spring of 2013, down slightly from a year earlier but four million above the previous five year average. The winter was warmer than average across the country, supporting winter wheat, and above-average precipitation in the Eastern half of the county finally eliminated drought in the Corn Belt and Southeast. The Southern Plains drought experienced some relief, but dryness on the West Coast and North Central areas was a continuing concern. A cold, wet spring caused significant planting delays in the Northern Plains, Midwest and Mississippi Delta. Planting progress was dramatically worse than in 2012 when the pace of plantings far exceeded the previous five year average for all the major spring planted crops. By the end of April...
2013, only five percent of corn was planted, the lowest level for that date since 1984. By June 2, only 57 percent of the soybean crop was planted, the lowest since 1996. Similarly, other major crops lagged their five year averages throughout the spring.

Yields and production recovered from 2012 with better growing season weather. Corn production was record high, while soybean production was the third highest on record. Rice and the all-wheat yields were each record highs, but production of each fell due to lower acreage. Winter wheat had its second highest yield on record and other spring wheat had its highest. With lower planted acreage, and drought in the Southwest hurting yields, upland cotton production contracted sharply. The improved weather made a big difference in the forage and hay crops, with production of all dry hay up 13 percent from 2012. Alfalfa production was generally up across the country, although Southwest producers still faced dry conditions limiting non-irrigated alfalfa hay. The National Agricultural Statistics Service’s (NASS’s) 18-state total for all forage production was 13 percent above the year earlier.

The 2013 marketing year saw a strong increase in global use of grains and oilseeds, but the increase in global use fell short of the even larger increase in global production, thus increasing global stocks. While global grain and oilseed stocks are expected to be higher by the end of the 2013 marketing year, stock levels are expected to remain below levels reached in 2009, 2004 and the 1990s, suggesting that successive years of large production are needed to push stocks to burdensome levels and that large production problems in 2014 could once again drive market prices to high levels. Reflecting the increase in available supplies in 2013, harvest prices on crop insurance revenue policies were 22 percent below base prices for corn, 18 percent lower for winter wheat and 13 percent lower for spring wheat. Soybean harvest prices were unchanged, while those for cotton and rice exceeded base prices.

The year’s big news on the policy front was the completion of new Farm Bills by the Senate and House in late 2013, with the final bill—the Agricultural Act of 2014—signed into law in February 2014. While Federal funding was reduced for the Farm Bill overall and for farm programs, funding for crop insurance was increased. The main new feature is the addition of two new area-based insurance programs designed to supplement a producer’s revenue. The programs are the Stacked Income Protection Program (STAX) for upland cotton producers and the Supplemental Coverage Option (SCO) for all producers. These programs will go into effect for the 2015 crop year, with crop and county eligibility to be determined by the Risk Management Agency (RMA).

This article begins with a review of weather and major crop production during the 2013 year. Commodity market developments are then reviewed, and the outcomes for insurance prices are presented. The implications for performance of the Federal crop insurance program and the U.S. and Canadian CropHail programs are examined, and the article concludes with a brief discussion of the year’s policy and program developments related to crop insurance.

Weather and Production

The 2013/14 marketing years for major crops kicked off with planting of winter wheat in the fall of 2012. Planted area for harvest was 43.09 million acres, up 1.87 million or 4.5 percent from 2012 and six percent more than 2011. The early harvest of spring crops and strong prices stimulated the area increase. Texas, Missouri and Oklahoma accounted for a total increase of over one million acres, while Illinois, Ohio, Tennessee and Indiana saw an increase of over 700,000 acres. A notable decline in planted area of over 800,000 acres occurred in North Dakota and Montana. There was little change in the white wheat areas of Oregon and Washington. As the crop headed toward winter dormancy, it was mostly rated fair to good, with 24 percent rated poor or very poor, somewhat worse than the 13 percent rating for the year-earlier crop.

The winter was warmer than average for the contiguous United States and was the 20th warmest on record, mostly due to a very warm December. With vestiges of the 2012 drought pushing into 2013, precipitation helped by being above average, mainly east of the Rockies, producing the 26th wettest winter on record and ending drought in the eastern Corn Belt (Figure 1). Drought also ended in the Southeast, as Louisiana, Mississippi, Alabama and Georgia each had winters that were among their top ten wettest, as did Wisconsin, Illinois and Michigan. Pasture, range and winter wheat benefitted from precipitation in the Plains. However, precipitation was below average in the northwest and the West Coast, lessening water supply prospects for 2013. With numerous snow storms, snow cover was also above average, with the winter experiencing the 15th largest seasonal snow cover over the period of 1966 to present.

In contrast to 2012, cold, wet weather disrupted spring planting in the Northern Plains and Midwest. U.S. spring temperatures were below average, resulting in the coldest spring since 1996. In the Central and Southeast re-
regions, 14 states had spring temperatures ranking among the ten coolest on record. The West and New England were warmer than average, with California having its seventh warmest spring. Spring precipitation was about average nationally, but above average in the Upper Midwest and below average in much of the West (Figure 2). Iowa had its wettest spring on record, with five nearby states having a top ten wet spring. Below-average spring precipitation was observed in the West and Mid-Atlantic. California had a top ten dry spring.

The cold, wet spring caused significant planting delays in the Mississippi Delta. Midwestern precipitation in April and late May caused flooding in the middle Mississippi Valley. By the end of spring, drought was eliminated from areas bordering the Mississippi River to the Atlantic Ocean. However, drought persisted or worsened from California and parts of Oregon to the southern half of the High Plains. East of the Rockies, spring was slow to arrive, especially in the upper Midwest, with Minnesota and North Dakota recording their coldest springs. The heavy precipitation and cool weather impaired winter wheat condition, slowing heading, and reducing planting progress for spring crops. By the end of April, only five percent of corn was planted, the lowest level for that date since 1984 (Figure 3). By June 2, only 57 percent of the soybean crop was planted, the lowest since 1996. Planting progress was dramatically different than in 2012 when the pace of plantings far exceeded the previous five year average for all the major spring planted crops.

A key market issue during 2013 was the number of acres that were prevented from planting due to the cold, wet spring. With the strong crop prices of 2012, slightly more acreage was expected to be planted but was not. In addition, there were 1.6 million fewer acres in the Conservation Reserve Program (CRP) in late 2012 than the year earlier, some of which could return to production. USDA’s Farm Service Agency (FSA) reported 8.3 million prevented planted acres for major crops, including 3.6 million for corn, 1.7 million for soybeans and two million for wheat. However, actual planted area suggests smaller numbers. NASS reported that acreage planted to principal crops in 2013 was 324.8 million, down only 1.5 million from the level planted in 2012. For corn, planted area was 95.4 million acres, down 1.8 million. In March 2013, farmers indicated plans to seed 97.3 million acres to corn, thus actual area seeded was only 1.9 million below stated intentions. For soybeans, farmers planted 76.5 million acres, down 0.7 million from 2012. In March, producers had expressed intentions to plant 77.1 million, thus actual area was only 0.6 million below intentions. Further analysis may help explain the relationship among planted area and FSA and crop insurance data on prevented planted acres.

Other decreases in planted area included upland cotton with 2013 area at 10.2 million acres, down from 12.1 million in 2012; peanuts at 1.1 million acres, compared with over 1.6 million in 2012; and dry edible beans at 1.4 million acres, compared with over 1.7 million in 2012. Wheat saw a notable increase in planted area at 56.2 million acres, compared with 55.7 million in 2012, as more winter wheat acres offset fewer durum and other spring wheat plantings.

The summer of 2013 had temperatures
that were above average, tying with 1937 as the 15th warmest summer on record. Above-average temperatures occurred in the West and Northeast, while below-average temperatures were in the Midwest and Southeast. The summer was the eighth wettest on record and the wettest since 2004 (Figure 4). New York, South Carolina, Georgia, and Florida each had their wettest summer on record. Early summer drying in the western Corn Belt became more widespread as the summer went on, expanding to much of the Midwest. Late summer temperatures also increased, putting corn and soybeans under greater stress by summer’s end. In the East, persistent rain adversely affected a variety of fruits, vegetables and other crops. The Southern Plains received rain, but not enough to end the three year drought.

The U.S. drought monitor (Figure 5) and U.S. crop conditions by week (Figure 6), indicate the general growing conditions during the summer of 2013. The drought monitor is a snap shot of the state of drought in mid-2013. At the end of July 2012, 63 percent of the contiguous United States was in drought rated D1 to D4. By the end of July 2013, that share had dropped to 46 percent, concentrated in the Plains and Southwest.

The delayed plantings due to the cold, wet spring continued to affect crop development as both corn and soybean maturation lagged the normal pace. Dry and very hot weather in July and August starting in the Western Corn Belt and spreading eastward caused crop conditions to deteriorate in mid-summer, but periodic showers and more favorable temperatures helped maturity in late August and September. Despite lagging development, the spring wheat crop condition remained highly rated throughout the growing season. Although cotton crop conditions were rated below other major crops throughout the growing season, conditions were near their previous five year average.

During the fall season, most of the United States had temperatures close to average, with California notable as it continued to see below-average precipitation. Five states from Colorado to North Dakota had one of their ten wettest autumns on record (Figure 7). By the end of November, the share of the contiguous United States in drought had fallen to 31 percent. Drought improved across the High Plains, Southern Plains, and parts of the Rockies but worsened in the Far West, with 98 percent of California in drought by the end of the fall season. While much of the west outside of California was experiencing wet weather, warmth in the Midwest spurred late-developing corn and soybeans, and Midwestern producers made excellent harvest progress during October. By October 27, 59 percent of corn was harvested, 32 percentage points below the drought-affected 2012 crop, but only three points behind the five year average. In the South, cotton developed normally and harvesting was only slightly behind average. As autumn progressed, producers also made good progress planting winter wheat, with sowing ahead of the five year average at the start of November, although a major area

Figure 4. Summer 2013 (Jun-Aug) Precipitation
National Climatic Data Center/NESDIS/NOAA

Figure 5. U.S. Drought Monitor
July 30, 2013 (Released Thursday, Aug. 1, 2013) Valid 7 a.m. EST

Drought Impact Types:
S=Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
L=Long-Term, typically greater than 6 months (e.g. hydrology, ecology)
Intensity
D0 Abnormally Dry
D1 Moderate Drought
D2 Severe Drought
D3 Extreme Drought
D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.
of concern remained the lack of soil moisture on the southern High Plains. Water supply concerns continued to increase in California as it moved toward a third consecutive year of sub-par precipitation.

The final production estimates for key major crops are summarized in Table 1. With much better growing season weather than in 2012, yield per harvested acre generally improved. A number of records or near records were set. Corn production was record high, with record-high yields in the Eastern Corn Belt and in many Southern and Southeastern states. Despite the planting delays and slow development, U.S. soybean yield improved and production was the third highest on record. The U.S. rice yield and the all-wheat yield were each record high, but with lower planted acreage of each, production declined. The winter wheat yield turned out to be the second highest and the other spring wheat yield was the highest on record. With a sharp drop in acreage and the U.S. yield seven percent below its 2012 record high, upland cotton production fell 24 percent. The improved weather made a big difference in the forage and hay crops. Production of all dry hay for 2013 was up 13 percent from 2012. Alfalfa production was generally up across the country, although Southwest producers still faced dry conditions limiting non-irrigated alfalfa hay. NASS’s 18-State total for all forage production was 13 percent above the year earlier.

Commodity Markets and Prices

With better weather in 2013 and a resulting rebound in yields per acre for key U.S. crops, the primary risk farmers faced was a large decrease in market prices. After declining in 2012, global grain and oilseed production increased by about 215,000 tons in 2013, the largest year-over-year gain since the 2004 marketing year (Figure 8). The United States led the increase with the record corn and large soybean harvests, however several foreign countries added to the supply increase. The European Union, Australia and Canada all had large increases in wheat production. Coarse grain production was up sharply in the Former Soviet Union, especially Ukraine, offsetting a decline in Brazil. Brazil and Argentina both had sizeable increases in soybean production. For other crops, world cotton production fell as both the United States and China contracted, while global rice production was about unchanged.

The 2013 marketing year also saw a strong increase in global use of grains and oilseeds, but that gain fell short of the increase in global production, thus increasing global stocks. The resulting lower crop prices spurred consumption and imports, and the year-over-year increase of over 110,000 tons in global use of grains and oilseeds was the largest in over a decade. The increase was highlighted by large import increases in Asia and Mexico and con-
continuing strong demand in China, especially for soybeans. While global grain and oilseed stocks are expected to be higher by the end of the 2013/14 marketing year, stock levels are expected to remain below levels reached in 2009, 2004 and the 1990s, suggesting that successive years of large production are needed to push stocks to burdensome levels and that large production problems in 2014 could once again drive market prices to high levels.

Figure 9 summarizes the behavior of overall U.S. agricultural prices as global crop production rebounded. The chart depicts indexes of prices received by U.S. farmers for all crops and all livestock products on a monthly basis. After more than doubling from the mid-2000s to 2012, crop prices declined sharply during 2013. Meanwhile, livestock prices reached record highs in 2013. With improving livestock profit margins, livestock supply rebuilding and stronger feed demand appears likely over the next several years.

Figure 10 shows the supply/demand situation for U.S. soybeans and corn, which together accounted for 69 percent of insured liability and 61 percent of total program gross premium in 2013. Despite the large soybean production in 2013, very strong export demand is expected to reduce U.S. carryover stocks and keep prices from declining as much as corn prices. USDA expects a 2013/14 season-average farm price of $13.00 per bushel, down 13 percent from the prior year. The large increase in corn production is forecast to sharply increase U.S. corn carryover and result in a season-average corn farm price of $4.60 per bushel, down 33 percent from the 2012/13 average price. Although U.S. wheat stocks are expected to decline with lower production, increased global wheat stocks due to large foreign production and the large increase in feed supplies are expected to reduce the all-wheat farm price to $6.85 for the 2013 crop, down 12 percent. Southern crops show a contrast in price prospects, with rice farm prices expected to average $16.90 per cwt, up 12 percent from the 2012-crop price, as lower U.S. production reduces carryover stock levels. Cotton, in the face of a 24 percent drop in U.S. production due to both acreage and yield declines, is expected to experience a large drop in U.S. carryover stocks and a season-average farm price for all cotton of 77.5 cents per pound, up seven percent from the 2012-crop average price.

Base prices for revenue policies for the current and prior recent years are shown in Table 2. As usual, base prices, which are futures prices during a discovery month, are heavily influenced by both the prior year’s farm price and the current year’s expected farm price. Although wheat expected farm prices were not available for 2014/15, a comparison of 2013/14 base prices with 2012/13 shows a decline of 1.0 percent in the All-Wheat base price, with the other crops showing declines ranging from 0.3 to 2.5 percent. Cotton, in the face of a 24 percent drop in U.S. production due to both acreage and yield declines, is expected to experience a large drop in U.S. carryover stocks and a season-average farm price for all cotton of 77.5 cents per pound, up seven percent from the 2012-crop average price.

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Table 2. Major Revenue Policy Base Prices1

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<tr>
<th>CROP</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>% CHANGE</th>
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<tbody>
<tr>
<td>Wheat, Winter ($/bu)</td>
<td>5.88</td>
<td>8.77</td>
<td>5.42</td>
<td>7.14</td>
<td>8.62</td>
<td>8.78</td>
<td>7.02</td>
<td>1.9</td>
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<tr>
<td>Wheat, Spring ($/bu)</td>
<td>11.11</td>
<td>6.20</td>
<td>5.43</td>
<td>9.89</td>
<td>7.84</td>
<td>8.44</td>
<td>6.51</td>
<td>7.7</td>
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<td>Corn ($/bu)</td>
<td>5.40</td>
<td>4.04</td>
<td>3.99</td>
<td>6.01</td>
<td>5.68</td>
<td>5.65</td>
<td>4.62</td>
<td>-0.5</td>
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<tr>
<td>Soybeans ($/bu)</td>
<td>13.36</td>
<td>8.80</td>
<td>9.23</td>
<td>13.49</td>
<td>12.55</td>
<td>12.87</td>
<td>11.36</td>
<td>2.5</td>
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<td>Upland Cotton ($/lb)</td>
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<td>0.55</td>
<td>0.72</td>
<td>1.15</td>
<td>0.94</td>
<td>0.81</td>
<td>0.78</td>
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<tr>
<td>RICE ($/cwt) (AR, MS, TX 2011-14)</td>
<td>14.40</td>
<td>13.10</td>
<td>14.00</td>
<td>16.10</td>
<td>14.70</td>
<td>15.70</td>
<td>13.90</td>
<td>6.8</td>
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</table>

1Revenue Protection for 2011-14 and Revenue Assurance for prior years.
Source: Various RMA Manager's Bulletins
prices were down for 2013/14, strong farm prices in 2012/13 affected wheat futures prices during the August-September 2011 base price discovery period, hence the 2013/14 base price is up slightly over the prior year. Similarly for spring wheat, stronger farm prices carried into early 2012 when the base price was established. Even though corn and soybean futures prices dropped sharply from the peaks reached during the 2012 drought, futures were still fairly strong during the 2013-crop base price discovery period resulting in base prices similar to those of the 2012 crops. Farm prices for corn, soybeans and wheat all dropped sharply after the base price discovery period for the 2013 crops as the year's improved production levels became reality. The lower farm prices heavily influenced the 2014 crop insurance base prices which were down sharply from 2013: 12 percent for soybeans, 18 percent for corn and over 20 percent for wheat.

Cotton was a different story from grains, as it was largely unaffected by the 2012 Midwest drought, had strong yields per acre and saw increased carryover stocks during the 2012 crop year. The result was a sharp drop in 2012-crop farm prices which heavily influenced the 2013 cotton base price. The lower 2013 price, and prospects for higher production in 2014, kept the 2014 base price slightly below the 2013 level. The rice market had strong demand and reduced carryover stocks during 2012/13, which pulled farm prices up and contributed to the increase in the 2013-crop rice base price. For 2014, the lower base price reflects two opposing forces, a high 2013-crop price and a large expected increase in long grain rice production in the mid-South. The mid-South production is expected to more than offset any negative impacts of the Western drought on medium-short grain production in California.

With corn being the most valuable U.S. field crop produced and accounting for nearly one-third of U.S. planted acreage, corn prices heavily influence prices of other field crops and livestock. Figure 11 shows this important price, illustrating the pattern of the December futures contract prices on a weekly basis from 2006 through 2013. During 2011, futures prices increased as the U.S. corn crop appeared to be well below trend. Prices tailed off in the second half of the year as markets adjusted and foreign grain production was strong. Futures prices continued to trend down during the first half of 2012 with large corn planted acreage and favorable spring planting progress. A large crop was expected and a $4.60 per bushel average farm price was forecast by USDA in May 2012 for the 2012 crop. The story quickly changed as the onset of the drought and its rapidly mounting severity caused corn futures to spike from near $5.00 per bushel in mid-June to a peak of $8.49 by early August. As demand fell in the face of high prices, market prices began trending down but remained above $7.00 per bushel as the December contract expired. Finally, the story in 2013 was rather as expected. Coming out of a devastating drought, corn futures prices started the year around $6.00 per bushel and slid somewhat steadily throughout the year and ended at $4.31 per bushel, in tandem with the anticipation and then the realization of the record high corn production.

Table 3 shows “implied” volatilities for major crops in the implied price volatility column. These volatilities are calculated, or implied, from observed prices for futures market options contracts. As a forward-looking measure of the riskiness of prices expected for the year, the volatilities are used in rating the Revenue Protection (RP) plan of insurance. When base prices decline, as they have...
for 2014, insured liability declines, provided other factors affecting liability are unchanged. When volatility factors decline as they have for 2013 and 2014, premium rates decline, provided other factors affecting the premium rates remain the same. Volatilities generally peaked in 2011 (even by historical standards, see the historical price volatility column in table 3) and have been declining since then, despite the uncertainty in markets created by the 2012 drought. The increase in production of most crops, first expected for 2013 and now again for 2014, apparently signals to market participants that greater stability of prices around their expected levels is in prospect.

Figure 12 shows how the 2013 base insurance prices related to the harvest prices. The harvest prices are the daily prices of the futures contract used to establish the base prices averaged during the harvest price discovery month. The rebound in corn production in 2013 explains the decline in harvest price to $4.39 per bushel. The 22 percent drop in price combined with high coverage levels in corn was enough to trigger indemnities for revenue policies even with yields equal to the producer’s production history. The wheat harvest prices reflect the corn price drop, the large increase in foreign wheat production and the expected increase in foreign wheat stocks. Soybean supplies remain tight, as seen in Figure 10, and the harvest price turned out the same as the base price. Harvest prices for cotton and rice were similar to base prices.

[Information sources for this section include: USDA, Foreign Agricultural Service, P&IE data base; USDA, Office of the Chief Economist, World Agricultural Supply and Demand Estimates Report (WASDE), various issues; USDA, NASS Quick Stats; RMA Manager’s Bulletins and the Price Discovery Application.]

Table 3. Volatility Factors

<table>
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<tr>
<th>CROP</th>
<th>Historical Price Volatility1</th>
<th>Implied Price Volatility2</th>
<th>% CHANGE 2012-13</th>
<th>% CHANGE 2013-14</th>
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<tr>
<td>Wheat, Winter ($/bu)</td>
<td>0.20 0.24 0.33 0.27 0.33 0.26 0.24 0.19 0.15 0.14 0.19 0.19 -7.7 -20.8</td>
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<tr>
<td>Wheat, Spring ($/bu)</td>
<td>0.23 0.33 0.25 0.24 0.25 0.19 0.15 0.14 -21.1 -6.7</td>
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<tr>
<td>Corn ($/bu)</td>
<td>0.21 0.30 0.37 0.28 0.29 0.22 0.20 0.19 0.18 0.17 0.13 -5.6 -23.5</td>
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<tr>
<td>Soybeans ($/bu)</td>
<td>0.18 0.31 0.31 0.20 0.23 0.18 0.17 0.13 0.17 0.15 -10.5 -11.8</td>
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<tr>
<td>Cotton ($/lb)</td>
<td>0.24 0.20 0.27 0.21 0.40 0.19 0.17 0.15 -22.4 -9.1</td>
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1Historical volatility values are obtained by fitting log-normal distribution to the time series of the ratio of the harvest price to the base price from 1968 to 2013. For each year in that time period, the harvest and base prices are calculated by using relevant futures prices in that year. Source: Barchart.com

2Revenue Protection for 2011-14 and Revenue Assurance for prior years. Source: Various RMA Manager’s Bulletins
The Federal Crop Insurance Program reached significant milestones in 2013. Total insured liability of nearly $124 billion was the highest ever, while gross premium of $11.8 billion was the second highest ever. The 296 million insured acres was a record high, while the $11.8 billion in indemnities was the second highest ever. As described in the prior section, the strong 2013 base prices for major crops contributed to their high insured value. Producers also continued to buy higher coverage levels in 2013, adding to total insured value (Figure 13). The program loss ratio on April 21, 2014 stood at 1.00 (Table 4), far below 2012's 1.57, but still the second highest since 2002.

Gross underwriting gains of the program are the gross premium less the total indemnities and these gains (or losses) are shared between FCIC and the insurance companies, as determined by the provisions of the Standard Reinsurance Agreement. For the business recorded to date, estimated total indemnities are very slightly above gross premiums resulting in a gross underwriting loss of $43.1 million. Thus 2013 and 2012 are first back-to-back years of gross underwriting losses since 1999 and 2000. The 2013 loss will result in a second year in a row of very low returns for the crop insurance companies. After a rate of return on retained premium in 2012 of about a negative 15 percent, the companies' rate of return on retained premium is expected to be in the mid-single digit range in 2013.

Program costs can be calculated using program outlays and revenues and are equal to: gross indemnities less farmer-paid premiums plus administrative and operating (A&O) payments made on the producers' behalf to the companies plus company underwriting gains. For the 2013 crop year thus far, net indemnities of $7.32 billion plus A&O payments of about $1.35 billion bring these two components of program costs to $8.67 billion. Adding expected underwriting gains would put the program cost in a range of $9.0 to $9.5 billion. Final costs will depend on final figures for indemnities, farmer-paid premiums and company underwriting gains, but the total cost is likely to wind up similar to the expected long-run levels shown in projections of the Congressional Budget Office (CBO).

Table 5 provides some insight on how low 2012's 1.57, but still the second highest since 2002.
insured acreage changed in 2013. The increase in wheat insured acres reflected the increase in wheat planted acres. While both corn and soybeans saw planted area decline in 2013 partly due to prevented planted acres, insured acres increased. With sharply more sorghum area planted, insured acres were up 24 percent. Cotton planted area declined and took insured acres down 14 percent. Following the trend of recent years, insured area of pasture, range and forage increased markedly and accounted for nearly half of the 12.7-million-acre increase in insured acres of all crops.

The U.S. map in Figure 14 identifies states with similar loss ratios by color, and shading is used to identify states with similar premium volume. The data show 16 states with loss ratios over 1.0. Alaska and Vermont had the highest, at 2.55 and 2.16, respectively, followed by Iowa, at 2.12. The top five states in premium and their loss ratios were: North Dakota, 1.00; Texas, 1.43; Iowa, 2.12; Kansas, 1.12; and Minnesota, 1.59. Total indemnities in these states were $6.9 billion, 58 percent of the total U.S. payout. Many of the lowest loss ratios were in the Eastern Corn Belt, where drought had inflicted large losses a year earlier. Indemnities by the top states and crops are shown in Table 6.

Figure 15 shows loss ratios by state for the revenue plans, RP and RPHPE, and the yield plan, YP. In the large premium states, particularly in the Corn Belt, the loss ratios for yield plans were much lower than for revenue plans, reflecting the large drop in harvest prices compared with base prices for corn and wheat. An exception is Texas where yield plan loss ratios were much higher than revenue, reflecting yield losses for cotton, rice and sorghum. Overall, the loss ratio for RP was 1.07; RPHPE, 1.25; and YP, 0.95. The declines in prices with generally good yields resulted in a loss ratio of 0.91 for the Group Risk Income Protection (GRIP) area plan, while the Group Risk Plan (GRP) and Group Risk Income Protection with Harvest Price Option (GRIPHRO) had loss ratios of 0.64 and 0.12, respectively. The highest loss ratio among plans was 2.34 for the 4.7 million acres covered by the PRF Vegetation Index; in contrast, the loss ratio for the 49.6 million acres covered by the PRF Rainfall Index was 0.86.

[The information source for this section was the RMA Summary of Business.]
Table 7. U.S. Crop-Hail Results, All Perils

<table>
<thead>
<tr>
<th>CROP YEAR</th>
<th>LIABILITY</th>
<th>PREMIUM</th>
<th>LOSSES</th>
<th>LOSS RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mil. $</td>
<td>Mil. $</td>
<td>Mil. $</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>15,186</td>
<td>427.5</td>
<td>245.9</td>
<td>0.58</td>
</tr>
<tr>
<td>2005</td>
<td>15,017</td>
<td>424.8</td>
<td>186.8</td>
<td>0.44</td>
</tr>
<tr>
<td>2006</td>
<td>15,545</td>
<td>405.2</td>
<td>203.2</td>
<td>0.50</td>
</tr>
<tr>
<td>2007</td>
<td>19,392</td>
<td>489.6</td>
<td>235.2</td>
<td>0.48</td>
</tr>
<tr>
<td>2008</td>
<td>27,540</td>
<td>669.4</td>
<td>555.1</td>
<td>0.83</td>
</tr>
<tr>
<td>2009</td>
<td>25,493</td>
<td>621.3</td>
<td>656.9</td>
<td>0.91</td>
</tr>
<tr>
<td>2010</td>
<td>27,170</td>
<td>682.2</td>
<td>460.4</td>
<td>0.67</td>
</tr>
<tr>
<td>2011</td>
<td>36,691</td>
<td>843.2</td>
<td>974.5</td>
<td>1.16</td>
</tr>
<tr>
<td>2012</td>
<td>39,320</td>
<td>956.7</td>
<td>701.4</td>
<td>0.73</td>
</tr>
<tr>
<td>2013</td>
<td>39,891</td>
<td>959.9</td>
<td>650.6</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Data for 2013 are as of April 2, 2014
Source: Adjusted Verified Totals for NCIS member companies combined with the data from non-members.

U.S. Crop-Hail Experience

For the United States, crop-hail insurance generally refers to policies in which direct damage from 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 NCIS non-member companies not included in NCIS’ Annual Statistical Summary reports.

Premium for 2013 as currently reported to NCIS was $959.9 million, up from $956.7 million in 2012, the largest in the history of the program. The premium amount in crop-hail has been steadily increasing since 2009. Crop hail provided $39.9 billion in privately insured crop-hail insurance protection to U.S. farmers in 2013. This coverage proved valuable in 2013 as it paid out $650.6 million in losses, the third highest amount in the last decade (Table 7), after 2011 and 2012.

The program had the largest hail losses in its history in 2011 (influenced by extensive hail as well as losses in production plans), and 2011 became only the second year since 1948 in which the countrywide loss ratio, defined as paid losses divided by premium written, exceeded 1.00. In 2012 and 2013, the program loss ratio reverted back to below 1.00 and is estimated at 0.73 and 0.68, respectively. The loss ratio for production plans was 0.88 in 2012 and 0.84 in 2013, with both levels exceeding each year’s overall loss ratio.

Large storms contributed importantly to losses for the year. In terms of statewide losses from storms on a particular day (for hail and wind perils), Nebraska took the top spot with $34 million on August 1. That was followed by Minnesota with $24.8 million on August 6 and South Dakota with $19.5 million losses on June 21. The losses from the top ten storm days at a state level amounted to $156.7 million, which remained less than those in 2011 and 2009 ($259.9 million and $176.5 million, respectively) but was much more severe than those in 2012, 2010 and 2008 ($120.2 million, $78.2 million and $89.2 million, respectively). Regarding county level losses in 2013 from major storm events on a particular day (also for hail and wind perils), Clay County in Nebraska took the top spot, which occurred on August 1, resulting in $12.5 million paid out to farmers. The second highest one-day storm in 2013 occurred in Chouteau County, Montana, resulting in $7.4 million paid out to farmers. The third highest one-day storm in 2013 occurred in Spink County in South Dakota, resulting in $7.3 million paid out to farmers. The next two largest county losses occurred in North and South Dakota. The total of the top five county losses amounted to $38.6 million, which was above those in 2012 and 2010 by 57 percent and 92 percent, respectively but was less than those in 2011 and 2009 ($259.9 million and $176.5 million, respectively). Of the top 50 most damaging storms at the county level, 20 occurred in the month of August, 17 in June, 10 in July, two in May and one in September.

Crop-hail loss ratios by state are shown in Figure 16. Colors identify states with similar loss ratios for production plans was 0.88 in 2012 and 0.84 in 2013, with both levels exceeding each year’s overall loss ratio.

Of these states, 10 had a loss ratio in excess of 1.00; they are shown in dark blue, light purple and red in the map. Particularly, New Jersey had the highest loss ratio of 3.65, albeit with a small premium of under $50,000. Georgia, with premium of $2.39 million, had the second highest loss ratio of 2.74. Montana, with $35.24 million in premium, had a loss ratio of 2.08, while Kentucky, with $5.82 million in premium, had a loss ratio of 1.91. Of the 43 states, 20 had loss ratios of 0.50 or less, shown in yellow and light green on the map, including Iowa with $118.9 million in premium, Illinois with $83.93 million in premium, Kansas with $59.31 million in premium and Indiana with over $25 million in premium.

Canadian Crop-Hail Experience

Crop-hail business in Canada is primarily written in the prairie provinces of Alberta, Manitoba and Saskatchewan. Denoting Canadian dollars with C$, Table 8 presents the grand totals. Overall, 2013 was a good year for crop-hail business, with the loss ratio of 0.5, the second lowest since 2008, paying out C$172 million to farmers, while protecting nearly C$6 billion worth of liability. Crop hail premiums, increasing since 2009, were C$343 million in 2013, up slightly from 2012 and 19 percent above 2008. Crop-hail loss payouts and the number of claims in 2013 were both down from 2012, and were much smaller than record values set in 2008. Compared with 2012, the adjusters faced much better conditions in 2013, especially later in the season. Increasing size of farms over time has contributed to higher payouts per loss.

Saskatchewan had C$209 million in premium 2013, 61 percent of the total; Alberta had C$85 million, 25 percent; and Manitoba had C$49 million, 14 percent. Compared with premiums in 2012, Alberta and Saskatchewan saw increases of seven and 1.4 percent, respectively; while Manitoba premium remained the same. Manitoba and Alberta experiences indicated average performance, while Saskatchewan saw a lower than the average loss ratio in 2013.

For Manitoba, an August 31 storm caused the highest number of claims, while a July 13 storm was the costliest, albeit with a lower number of claims. The latter storm also af-
fected Saskatchewan (discussed below). In 2013, C$30 million was paid out and the loss ratio was 0.61. In 2012, payouts edged up to C$31 million, and given that the premium remained the same as the year earlier, the loss ratio turned out a bit higher at 0.65.

In Alberta, C$61 million was paid out and the loss ratio was 0.72 in 2013, about the average performance. In contrast, Alberta was hit hard in 2012, with C$90 million paid out and the loss ratio reached 1.13. In 2013, crop-hail companies saw harsh and costly storms in early July yet the conditions improved later in the season. Meanwhile, insurers in other lines in Alberta paid nearly $2 billion in indemnities triggered by rain-induced floods in June, and that was globally insurers third biggest loss in 2013 (The Economist; March 29, 2014).

Saskatchewan, the largest province for hail business, saw a 0.39 loss ratio in 2013, which was a break from rather high loss ratios three years in a row. In 2012, the loss ratio was 0.75 and crop hail companies paid C$159 million. In 2013, payouts were C$81 million, which accounted for major storm events on July 13th and July 19th. The July 13th storm made a marked difference in determining total losses for the year. The later months were quieter, generating a smaller volume of claims.

Overall, the Canadian crop-hail industry remained healthy and confident in its capacity to meet Prairie farmers’ risk management needs.

[The information source for this section was 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 crop insurance industry faced notable issues in the policy arena during 2013. The dominant development was the effort to enact the 2014 Farm Bill. This section provides a brief recap of the Farm Bill activities and several other policy and program changes.

2014 Farm Bill. As 2012 ended, Congress had not passed the Fiscal Year 2013 appropriations bill, had not agreed on how to deal with the pending sequester required by the Budget Control Act of 2011 and had not reached an agreement on longer term deficit reduction. The full Senate and the House Agriculture Committee had each passed versions of a 2013 Farm Bill, but the House leadership decided not to bring their bill to the floor for a vote during the fall of 2012, concerned about the prospect of passing a large spending bill in the highly charged budget environment. With a new Congress and new agriculture committee composition in 2013, the farm bill process had to start anew.

The Senate Committee on Agriculture, Nutrition and Forestry acted first, reporting out a Farm Bill on May 14, 2013, which reduced projected spending by $24 billion over 10 years. Nutrition programs accounted for most projected spending, but crop insurance was second. The full Senate passed the bill on June 10. The House Agriculture Committee passed its version of the Farm Bill on May 15, however, dairy, nutrition and overall spending were key issues that led to significant debate and delay in getting to full House approval. Republicans pursued cuts to the nutrition programs while Democrats countered with proposed cuts to crop insurance. To resolve the impasse, the House split nutrition programs from their bill and created two separate bills. The pared down version without nutrition passed the House in September 2013 but did not advance in the Senate without a nutrition title. In late September, the House passed a separate nutrition bill and then rejoined that with the rest of the bill to create a complete Farm Bill. Thus by late September, the Senate and House bills were ready to be reconciled.

In October 2013, the Congressional Research Service reported updated cost estimates after accounting for some $6 billion in 10 year savings from sequestration, noting that the Senate bill would reduce spending by $18 billion over 10 years, while the combined House bill would reduce projected spend-

<table>
<thead>
<tr>
<th>CROP YEAR</th>
<th>PREMIUM</th>
<th>LOSSES</th>
<th>NUMBER OF CLAIMS</th>
<th>LOSS RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mil. C$</td>
<td>Mil. C$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>289</td>
<td>341</td>
<td>29,000</td>
<td>1.18</td>
</tr>
<tr>
<td>2009</td>
<td>262</td>
<td>76</td>
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</tr>
<tr>
<td>2010</td>
<td>263</td>
<td>155</td>
<td>16,000</td>
<td>0.59</td>
</tr>
<tr>
<td>2011</td>
<td>269</td>
<td>164</td>
<td>15,000</td>
<td>0.61</td>
</tr>
<tr>
<td>2012</td>
<td>341</td>
<td>280</td>
<td>21,600</td>
<td>0.82</td>
</tr>
<tr>
<td>2013</td>
<td>343</td>
<td>172</td>
<td>13,320</td>
<td>0.50</td>
</tr>
</tbody>
</table>

*Loss ratios do not reflect loss adjustment costs.*
*Number of claims exceeded value indicated.*

Source: The Hail Report, a publication sponsored by The Canadian Hail Association, which represents companies that sell crop-hail insurance in Western Canada.
ing by $52 billion, with nutrition accounting for most of the discrepancy. The Conference Committee reconciled the bills and the Agricultural Act of 2014 was signed into law by the President on February 7, 2014. The Act was estimated to reduce projected spending by $16.6 billion over 10 years after accounting for sequestration. The new Act heralds a new era for crop insurance as the major component of the farm safety net. The Act increased public support for crop insurance, adding $5.7 billion to projected spending over the next decade, mainly through two new supplemental revenue crop insurance programs.

The first major new supplemental program is the Stacked Income Protection Plan, or STAX, for upland cotton acreage only. STAX is an additional area revenue plan that may be used alone or in combination with a companion policy and is to be made available for sale no later than the 2015 crop year. STAX is to be available in all counties with cotton production or in a larger geographical area where counties lack sufficient data. STAX covers revenue losses of not less than 10 percent and not more than 30 percent of expected county revenue, and coverage may be purchased in five percentage point increments. An indemnity is paid when actual county revenue falls short of expected county revenue less a deductible. Producers receive a premium discount equal to 80 percent of the STAX premium, and on behalf of the producer, an administrative and operating expense payment is made to the crop insurance companies to compensate for a portion of delivery expenses. Because STAX replaces major farm programs for upland cotton producers but will not be in place for the 2014 crop year, cotton producers will receive a transition payment for 2014. A smaller transition payment will be made for 2015 for areas where STAX is not available.

The second program is the Supplemental Coverage Option, or SCO, which provides all crop producers with the option to purchase area coverage in combination with an underlying individual policy that would allow indemnities to be equal to a part of the deductible on the underlying the policy or plan of insurance. SCO is to be made available for sale beginning with the 2015 crop year on a county-wide level or on the basis of a larger area in counties that lack sufficient data. SCO indemnities are triggered if losses in the area exceed 14 percent of expected levels, with SCO coverage not to exceed the difference between 86 percent and the coverage level selected by the producer for the underlying policy. SCO coverage is not available for crops enrolled in the Agriculture Risk Coverage program, a new supplemental revenue farm program also created by the farm bill. SCO is also not available for acreage covered by STAX. Producers receive a premium discount equal to 65 percent of the SCO premium, and on behalf of the producer, an administrative and an operating expense payment is made to the crop insurance companies to compensate for a portion of delivery expenses.

The 2014 Farm Bill may result in a number of other new crop insurance products coming to market. Margin protection is authorized and development of rice and catfish margin products is required. New product priorities are placed on policies for underserved commodities, including sweet sorghum, biomass sorghum, rice, peanuts, sugarcane, alfalfa, pennycress, dedicated energy crops, and specialty crops. Research and development of new products is required for peanut revenue, alfalfa, whole farm risk management, and biomass sorghum and sweet sorghum for use in renewable energy and bioproducts. The Farm Bill also requires several studies of the feasibility of insuring selected risks.

The Agricultural Act of 2014 will result in many new features for crop insurance. The enterprise unit discount is made permanent. Separate enterprise units will become available for irrigated and non-irrigated acres. Producers will also be able to have separate coverage levels for irrigated and non-irrigated acres. A continuing issue has been the loss of insurable coverage a producer suffers as the result of low yields resulting from disaster. The new Act allows producers to exclude any year from their insurable production (APH) if the county’s yield per planted acre for the crop in that year is at least 50 percent below the previous 10 year average of the yield per planted acre for the crop in the county. This provision also applies to contiguous counties and allows for the separation of irrigated and non-irrigated acres. Another provision enables price elections for all organic crops produced in compliance with USDA standards to reflect the actual retail or wholesale prices received by producers for their crops. Together, these and other changes in the Farm Bill will increase a producer’s ability to custom tailor their crop insurance risk management solutions to more precisely fit the needs of their operation.

Other key changes include restrictions on future Standard Reinsurance Agreement (SRA) negotiations. To ensure crop insurance’s long-term workability and to protect the risk sharing arrangement now underpinning the crop insurance system, the Farm Bill also directs that terms of the next business contract between the insurers and the government be budget neutral. In addition, the conservation title of the new Act requires that in order to be eligible for a premium discount, producers must adhere to conservation compliance requirements, intended to conserve highly erodible land and wetlands. Another provision in the crop insurance title is an effort to protect native sod. If a producer breaks native sod and purchases crop insurance on that land, the yields used to calculate the insurance guarantee will be 65 percent of the county average yield, and the premium discount will be reduced by 50 percentage points. This provision only applies to native sod in the states of Minnesota, Iowa, North Dakota, South Dakota, Montana and Nebraska.

Product Developments. Several insurance products were revised and others newly approved for sale during 2013. One example is release of the Area Risk Protection Insurance Plan (ARPI). The existing area-based insurance plans GRP, GRIP and GRIPHP were combined into one policy offering both yield and revenue coverage on an area basis. The new policy is in place for the 2014 crop year. Other examples include the Downed Rice Endorsement which was approved for sale in 2012 for the 2013 crop year. The Actual Revenue History (ARH) Tart Cherry Program was made available for the 2014 crop year in select counties in New York, Wisconsin, Michigan, Utah, and Washington. Also, the Trend-Adjusted Actual Production History yield adjustment was expanded for 2013 to wheat, canola, cotton, grain sorghum and rice in certain areas.

Program Developments. Several significant changes were made in programs during 2013. Interest has increased in recent years over the use of cover crops to improve soil quality, produce nitrogen, control weeds and erosion and retain soil moisture. However, this use has raised concerns over the effect of cover crops on yields of insured crops. USDA
worked with the crop insurance industry and other stakeholder groups to address the issue of cover crop practices and developed guidelines for crop insurance policies that reference the USDA’s Natural Resources Conservation Service (NRCS) guidelines for cover crop practices. These guidelines will form what are considered “good farming practices” for a given crop production area and provide management practices and termination dates for each crop production area. The guidelines were released in June 2013 for non-irrigated crops for the 2014 crop year.

Prevented planting procedures continued to be refined during 2013. New special provisions were added to clarify acreage that is physically available for planting in regions of Iowa, Minnesota, Montana, North Dakota and South Dakota (Prairie Pothole National Priority Area) for the 2014 crop and succeeding crop years. One requirement is that acreage must have been planted and harvested (or have incurred an insurable loss other than for excess moisture) in at least one out of the last four years, regardless of whether any of those years was abnormally dry, in order to be eligible for a prevented planting payment. If a producer has been unable to plant and harvest a crop in at least one of the four most recent crop years, the producer must demonstrate that the land is farmable before the land will be eligible for prevented planting coverage. This will require planting and harvesting a crop for two consecutive crop years.

In a related activity, RMA awarded a research contract to determine if prevented planting payments are appropriate but not so excessive that producers benefit by not planting, as claimed by a report issued by USDA’s Office of the Inspector General (OIG). The prevented planting guarantee for most crops is 60 percent of the production guarantee for acreage that is planted at the normal time. The research will evaluate existing policy provisions by crop and region to determine whether the payments provided are adequate or excessive. If payments are found to be inadequate or excessive, alternatives will be provided for consideration.

Research. Many new research contracts were awarded by RMA covering new and existing products and rating issues in 2013. One example is irrigation. Irrigation issues have risen in prominence given continuing drought in the West and the pressure on irrigation water availability. In 2013, California experienced the driest January-June period in 90 years, resulting in sharp water supply reductions. This research is designed to address crop insurance irrigation policies in the face of reduced water supplies. The project is to assess whether current policies and procedures are appropriate for handling reduced irrigation practices and the feasibility of insuring limited irrigation using alternative models or approaches is being examined.

With the increased expected use of area plans as a result of the 2014 Farm Bill and the revisions to ARPI, another research effort initiated in 2013 is to focus on data reported to RMA under the crop insurance program. The analysis will include a review of existing data standards for area-based programs and the effects of alternative standards on the ability to have actuarially sound expected yields and premium rates. Premium rates will also be examined.

The Acreage and Crop Reporting Streamlining Initiative (ACRSI) started a pilot acreage reporting web application for 2013 spring crops. The application was made available in four central Kansas counties to provide a controlled test and evaluation of the application and underlying systems that share data across multiple USDA agencies.

New AIPs. For the 2014 reinsurance year, starting July 1, 2013, RMA approved 19 insurance providers (AIP), one which sells livestock products only. A new AIP for 2014 is Atlantic Specialty Insurance Company, and its managing general agency Climate Crop Insurance Agency (CCIA). The Climate Corporation has marketed insurance products outside the Federal program for several years. They decided to enter the multiple peril crop insurance marketplace and CCIA will administer their multiple peril crop insurance business.

Conclusion

Again in 2013, crop insurance helped farmers deal with the year’s weather and market risks. Crop insurance was singled out by legislators during the development of the new Farm Bill as the primary program supporting production agriculture and was heralded as indispensable for successful farming today.

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