



Tom Zacharias, NCIS President

“Don’t forget what your failures have taught you Or else you’ll learn them all over again.”

“Is the knowledge gained Worth the price of the pain?”

Lessons Learned

As this third quarter issue of Crop Insurance TODAY® hits the “virtual street,” expectation and chatter concerning future farm policy initiatives is starting to build. Before sliding down that slippery slope with unfounded prognostications, perhaps a better use of our time here is to look back over our proverbial shoulder and determine if we have learned anything from the past, and if those “lessons learned” help us going forward.

For this, of course, we need a lyric or two and none better than those of the late Dan Fogelberg:

“Lessons learned are like Bridges burned You only need to cross them but once...”

So, what do we know, what have we learned...

Individual Coverage is Fundamental

Federal Crop Insurance as we know it today has its beginning in state-regulated “Crop-Hail” insurance delivered by private sector crop insurance companies. Certain of these crop companies (who, by the way, are NCIS members today) are still in existence and thriving. Both the early hail policy and today’s revenue policy, which make up the bulk of the crop insurance business, are individually-based insurance coverages. Should an insurable loss event occur, these policies are designed to indemnify the individual for their respective loss. Over time, crop insurance policies have become more sophisticated and specialized in order to meet the risk management needs of the modern farmer. Although area and parametric insurance policies have been introduced, these products have

simply not experienced the degree of market penetration that some thought possible.

Why is this? When compared to area-based plans, individual coverage is the farmer’s optimal risk efficient choice. This result has been borne out not only by the experience of area plans in contrast to individual plans but has also been shown to be the case using economic analysis. A study conducted by NCIS demonstrates that farmers’ optimal coverage choices are individually-based (Bulut, Collins, and Zacharias 2012). In the study it was shown that only when area plans are under-priced (or received higher premium support) relative to individual plans, farmers would begin to substitute a portion of individual coverage with area coverage. If risk minimization is the primary policy objective, area-based or index-based products should be designed such that these types of policies do not distort the farmer’s optimal choice of individual coverage. *Lesson Learned.*

Ex Ante versus Ex Post Nature of the Farm Safety Net

We have opined on the benefits of the ex ante nature of crop insurance on more than one occasion in this publication. We will continue to do so. The ex ante structure of the modern day crop insurance system allows the farmer, the insurance company, and the government to better manage agricultural risk in today’s environment. Liabilities, premium amounts, and conditions of indemnification are all established before the

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crop is planted and well before a loss occurs. At one level, this seems like just good old common sense. Interestingly enough, the benefits of ex ante crop insurance relative to ex post disaster aid can be illustrated using economic theory. Another study conducted by NCIS demonstrates that from the government's perspective it is socially optimal to provide premium support for crop insurance in lieu of ex post ad hoc disaster payments (Bulut, 2017). Ex post disaster aid provides an "implicit" coverage not tailored to the farmer's individual risk management needs. Crop insurance allows and enables farmers to plan and manage their risks individually. *Lesson Learned.*

Actuarial Soundness

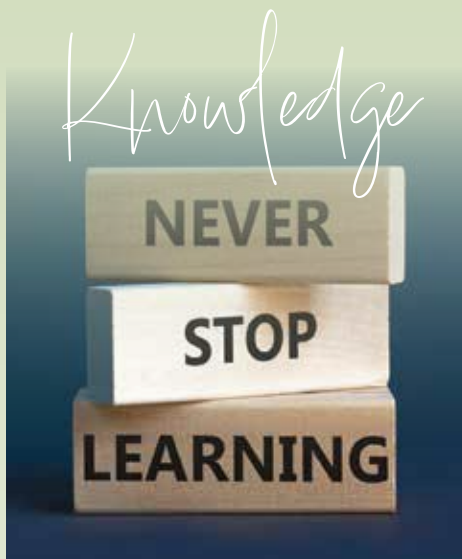
As defined by the actuarial profession, one aspect of actuarial soundness essentially refers to the insurance system's premium setting methodology's ability to adequately fund expected indemnities over the long run. Since the mid to late 1990s, Federal crop insurance has experienced favorable actuarial performance as the program loss ratio has remained below 0.88 as targeted by the Risk Management Agency. In my humble opinion, this performance appears to be attributable to three factors: (i) increased and diverse participation that has allowed for the spread of risk; (ii) improved program underwriting standards; and (iii) improvements in RMA's actuarial methodology combined with better data.

Actuarial soundness benefits all program stakeholders, and it is fundamental in establishing and maintaining confidence in the insurance system. As such, actuarial soundness is critical for the success of the program. *Lesson Learned.*

Institutional Infrastructure Matters

*"Is the knowledge gained
Worth the price of the pain?"*

I have had both the honor and privilege to speak about the U.S. crop insurance model to a wide variety of audiences over the years, including the USDA Annual Outlook Conference, as well as international presentations such as the International Hail Congress (AIAG). In these discussions I often "start at the beginning." That



is, what are the fundamentals of the U.S. model that has resulted in its success? First, the U.S. system is governed by contract and legislative authority. The "rules of the road" are written down and publicly available. Over time, both USDA and the private sector have established and built an "institutional infrastructure" if you will. Second, this infrastructure includes not only the legislative language, the policies, the loss adjustment procedures, and the actuarial database, but in addition, this infrastructure includes the human capital housed in the companies and agency force along with USDA. The wealth of institutional knowledge housed in the women and men working in this industry is phenomenal and has been decades in the making. To answer Dan's question, yes, the "knowledge gained has been worth the price." Lastly, this is not accomplished without commitment. Both the private and public sector are extraordinarily committed to improving crop insurance. And it shows, with 90 percent of principal crop acreage insured, an actuarially sound insurance system, and farm groups repeatedly stating that maintaining and strengthening crop insurance is an essential policy priority for the future.

As we go forward, let's keep in mind that there have been, and continue to be, headwinds facing our industry. In recent years, this industry, in partnering with RMA, has worked through the pandemic, the crop failures of 2012, the prevent planting losses of 2019, the derecho of 2020, and now the aftermath of Hurricane Ian. There have been and will be legislative and funding challenges as we all work to improve crop insurance. Through all of this, improvements to our industry and the crop insurance delivery system have been made due in part to the *Lessons* we have *Learned*. So, in closing, one final lyric:

*"Don't forget what your failures
have taught you
Or else you'll learn them all over again."*

In this Issue

The 2021 agronomic research results are presented in this issue. These results are invaluable to ensure the accuracy of the standardized industry loss adjustment procedures. The one-year results should not be used on their own but will be combined with multiple years of research results, either conducted in conjunction with these projects or from previous projects.

We introduce you to farmers from North and South Carolina who rely heavily on crop insurance to protect their farms, many of which have been in their families for multiple generations. Farming in the Carolinas isn't without its challenges, so it's important that crop insurance agents understand the policies available and present all options to their clients. We met just three of those dedicated agents and are pleased to introduce them to you, as well. We hope you will watch their full stories at CropInsuranceInAmerica.org/RealStories.

Dr. Harun Bulut's article on Area versus Index-based insurance plans provides a brief review of these products in association with the overall book of business—which has been predominantly individual coverage. The objective of the article is to clarify the roles of area or index-based plans within the Federal crop insurance portfolio.

We also highlight the important information presented at the 2023 Fall Train-the-Trainer Conference, which was held in July with attendees participating in person or virtually. And we introduce you to the latest group of NCIS summer interns, who worked very hard learning about all aspects of crop insurance from NCIS staff and others throughout the industry.

Bulut, H., K.J. Collins, and T.P. Zacharias. 2012. *Optimal Coverage Demand with Individual and Area Plans of Insurance*. *American Journal of Agricultural Economics*. 94(4): 1013-1023. <https://doi.org/10.1093/ajae/aas068>.

Bulut, H. 2017. *Managing Catastrophic Risk in Agriculture through Ex Ante Subsidized Insurance or Ex Post Disaster Aid*. *Journal of Agricultural and Resource Economics*. 42(3): 406-426. <https://jareonline.org/articles/managing-catastrophic-risk-in-agriculture-through-ex-ante-subsidized-insurance-or-ex-post-disaster-aid/>.