



Agricultural Risk Protection Act 2000

The New Crop Insurance Reforms Brief Outline

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Risk Management Agency | Washington, D.C. | June 20, 2000

Recent History

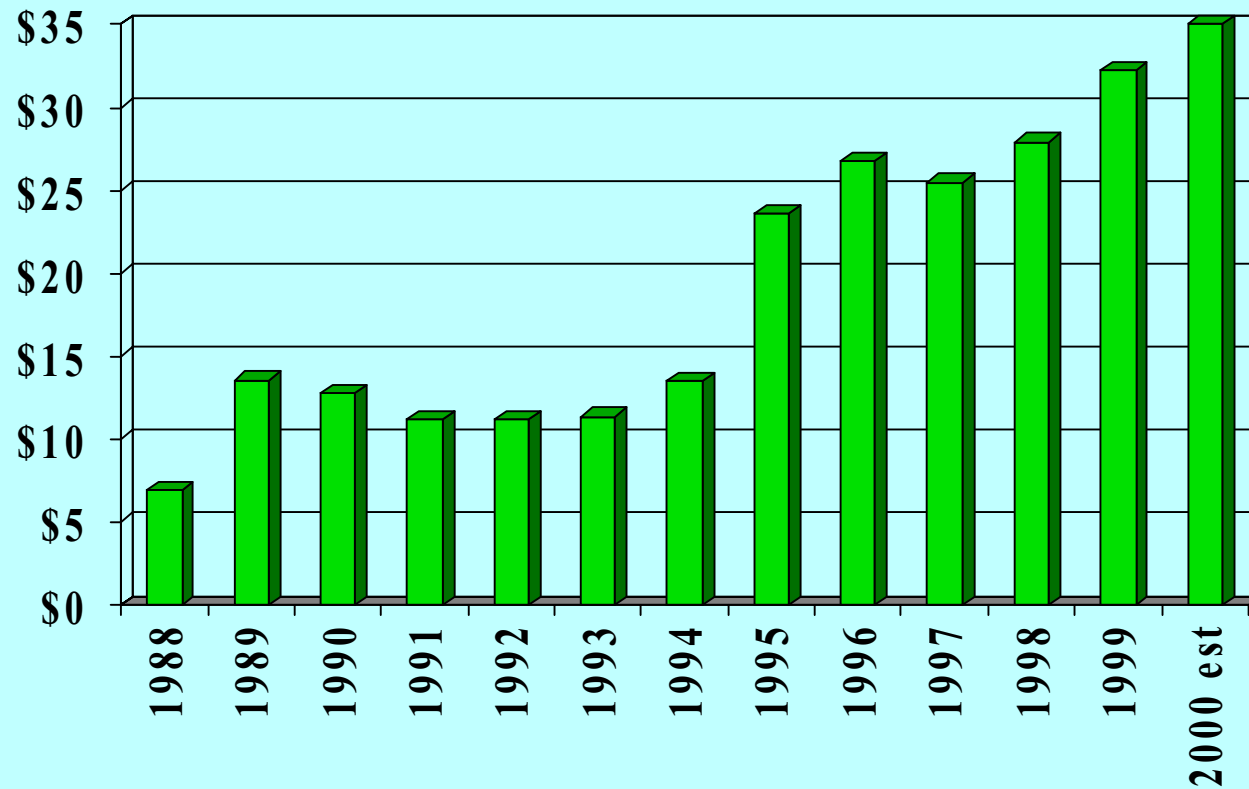
- **1988:** Drought of the century
- **1989:** Drought of the century II
- **1992:** Hurricane Andrew
- **1993:** Midwest flood/Southeast drought
- **1995:** Cotton insects/California floods/wet spring
- **1996:** North Carolina hurricanes/record winter
- **1997:** Northern Plains floods
- **1998:** El Niño, La Niña, South/Southeast drought
- **1998-2000:** Commodity price slump
- **1999:** Northeast drought, Hurricane Floyd, Hurricane Irene
- **2000:** Possible drought ????

Six Major Safety Net Reforms Since 1993

- **1993 OBRA**: Loss ratio target, “actuarial soundness.”
- **1994 Reform Act**: Replaced ad hoc disaster aid with expanded crop insurance, created CAT coverage.
- **1996 Farm Bill**: AMTA payments replaced price supports; crop insurance retained and expanded.
- **1996-8**: Revenue insurance spread nationwide.
- **1998 Research Act**: “Permanent funding” fix, 533 process.
- **1998/1999 Emergency Bills**: 30/25% (est.) premium discounts for buy-up coverage, income and crop loss assistance.
- **2000**: New crop insurance reform legislation.

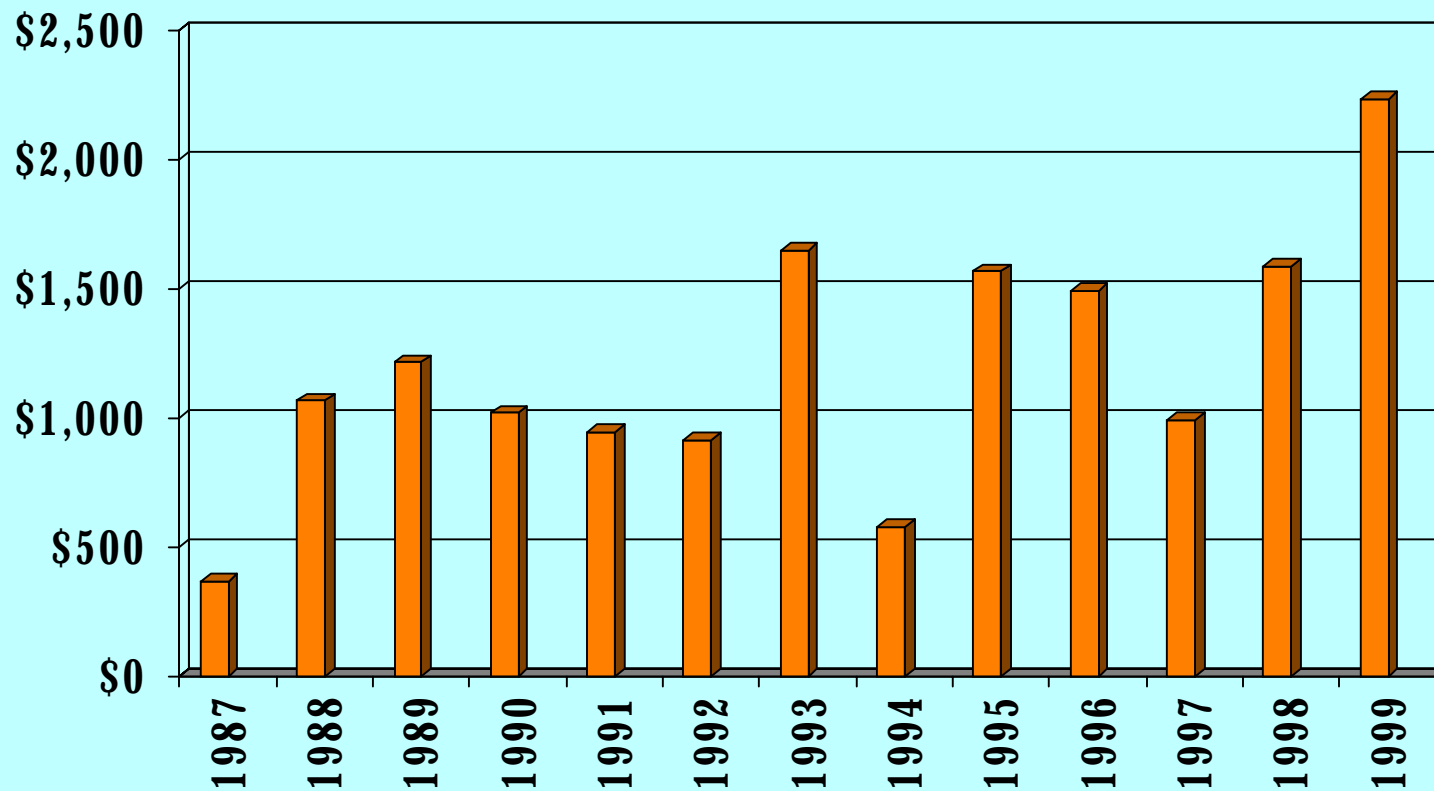
Rising Program Participation

Crop Insurance Guarantees: U.S. Total 1988-2000 (\$ billions)



Loss Payments to Farmers

Crop Insurance Indemnities: 1987-1999 (\$ millions)



The 2000 Act — What It Does

- Invests \$8.2 billion over 5 years to make Federal crop insurance better;
- Makes buy-up coverage more affordable;
- Addresses the problem of multi-year losses;
- Expands research and development for new products and under-served areas; and
- Tightens compliance.



1. Improves the Basic Product

- Higher premium subsidies for buy-ups, for all levels, at least as good as 30% discount;
- Equalizes farmer subsidy for revenue and other new products;
- Authorizes APH 60/60 adjustment; and
- Sets all additional coverage fees at \$30 per crop per county.

New Crop Insurance Subsidy Levels

Percent of Total Premium Paid by Federal Crop Insurance Corp.

	<u>Current APH</u>	<u>Current CRC</u>	<u>New law</u>
<u>50/100</u>	55%	42%	67%
<u>55/100</u>	46%	35%	64%
<u>65/100</u>	42%	32%	59%
<u>70/100</u>	32%	25%	59%
<u>75/100</u>	24%	18%	55%
<u>85/100</u>	13%	10%	38%

2. NAP & CAT Coverage

- Makes NAP more like insurance
 - Eliminates the NAP area trigger;
 - Creates a \$100 fee per crop, per county (same as CAT);
- Requires group-risk CAT alternative;
- Raises CAT fee to \$100;
- Allows associations to pay CAT fees in States which allow insurance rebating (and contiguous States);
- Reduces company reimbursement to 8%, from 11%.

3. Encourages Expansion

- Investment in private sector R&D:
 - \$65 million—reimbursements for new products:
 - \$10 mil. in 2001-2, \$15 mil. in 2003-5.
 - \$110 million—contracts for partnerships:
 - R&D for under-served areas and crops,
 - Studies of multi-year coverage, revenue insurance and cost of production,
 - Partnerships for new tools, weather data, etc.
 - \$20 million in 2001-3; \$25 million in 2004-5;
 - \$5 million annually (\$25 mil. total) for under-served states;
 - If not needed, can be used elsewhere
 - Bars direct research and development by RMA;

More on Expansion

- Expands general pilot program authority;
- Mandates new pilot approaches
 - Livestock pilot program;
 - Limited to \$75 mil. Cost over 5 years;
 - (\$10 mil. in 2001-2, \$15 mil. in 2003, \$20 mil. in 2004-5);
 - Premium rate reduction pilot program;
 - Cost-share pilot program in 10-15 states.
- Expands dairy options pilot program;
- Expands Risk Management education
 - \$5 mil. ann. regional through RMA;
 - \$5 mil. ann. national through CSREES;
- Expedites FCIC board review of new products
 - 120-day time limit.
 - Expanded Board membership

4. Tightens Compliance

- Limits double insurance and prevented planting;
- Mandates coordinated plan with Farm Service Agency
 - Annual data reconciliation;
 - FSA monitoring assistance;
 - Consultation with FSA state committees;
- Mandates & funds data-mining effort
 - Agents or loss adjusters representing losses 150% (or an appropriate percentage) above area average;
- Requires submission of policy data within 30 days of sales closing;
- Expands penalties;
- Strengthens “good farming practices” requirement;
- Creates under-writing group (“Expert Review of Policies”).

5. Special Cases

- Irrigated drought coverage for rice & cotton;
- Payments for the durum growers;
- Cotton quality adjustment provision;
- No revenue insurance on potatoes;
- Authorized pilot program on wild salmon; and
- Authorized re-negotiation of SRA with participating companies: once during the 2001-2005 period.

What This Means — Short-term

- **For now — Lots of work !!!**
 - RMA to write new rules, revise rates, solicit contracts, get out the information, so on
 - Agents to explain new program to farmers
 - Starting with Fall 2001 sales.
 - First step: Lots of meetings.
 - Internal USDA meetings; Briefing of companies.
 - Expect to hear more from us between now and mid-summer.

What This Means — Long-term

- **Down the road -- A better program!**
 - More participation by farmers at higher levels;
 - More crops covered; more new products and new approaches;
 - Tighter program integrity.

- **For American farm producers, more security;**

- **For American taxpayers, more confidence.**