# Deputy Manager's Report
# May 2000

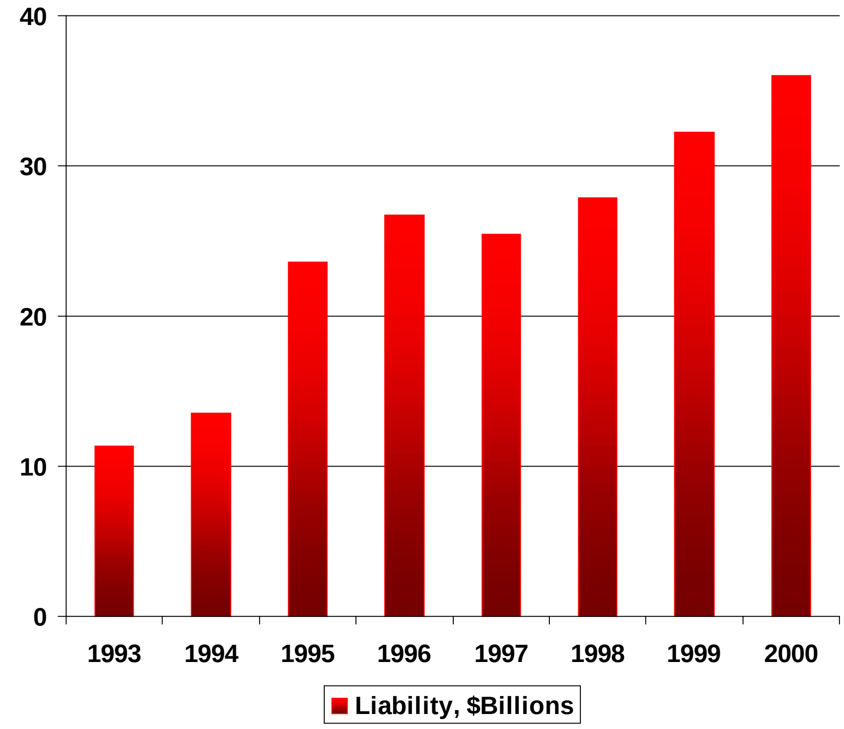
**RESOURCES ARE THE KEY CONSTRAINT TO THE ABILITY OF THE AGENCY TO MEET THE NEEDS OF AMERICA'S FARMERS.**

**RMA HAS TRIPLED THE SIZE OF ITS PROGRAM WITH A 40% CUT IN RESOURCES - WE CANNOT KEEP THIS UP.**

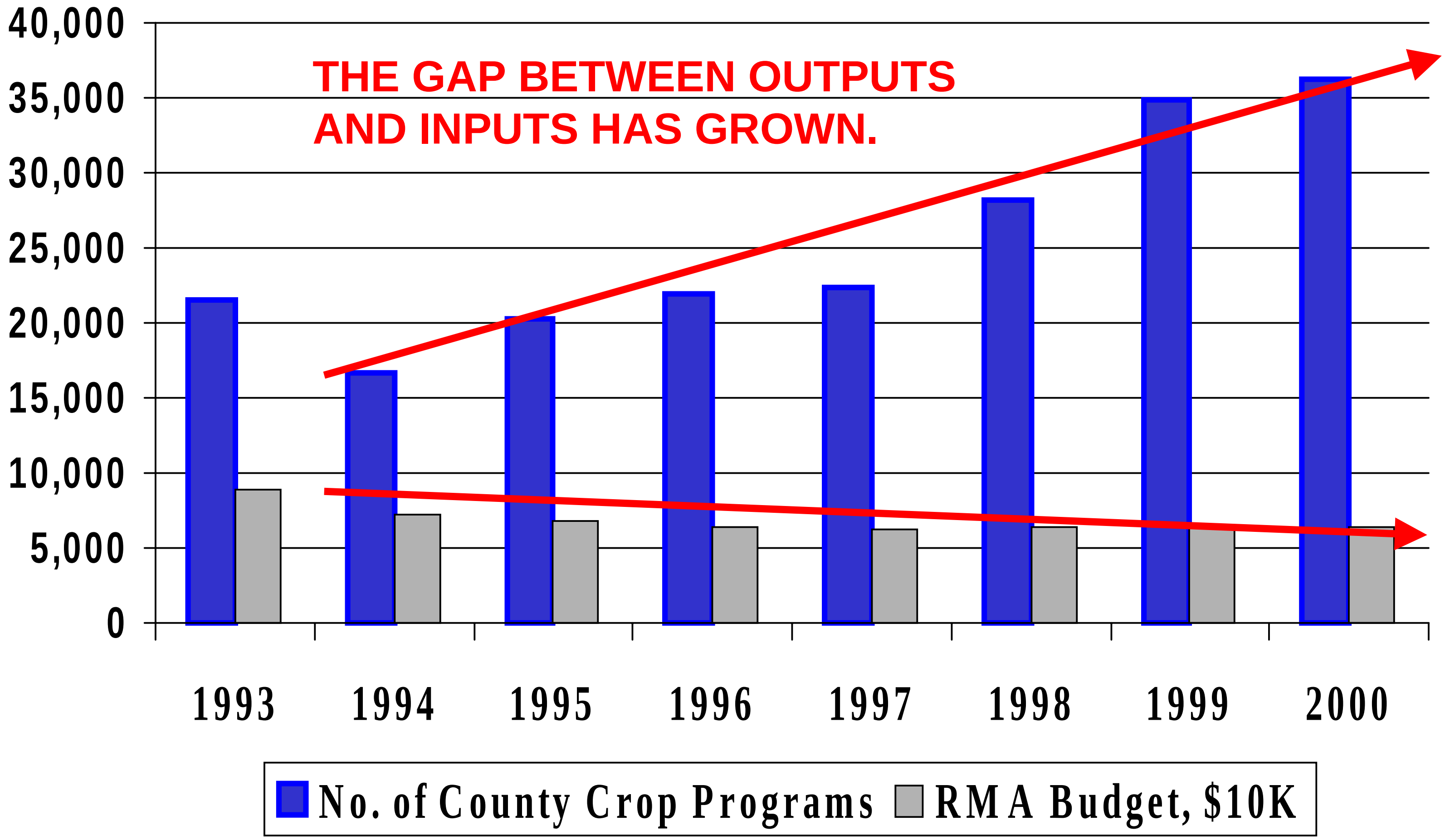
***Risk (with Respect to Insurance) is the Possibility of Financial Loss.***
***RMA/FCIC Helps Reduce the Frequency and Severity of Farmers' Losses.***

# THIS BOARD OF DIRECTORS HAS OVERSEEN THE LARGEST EXPANSION IN PROGRAM HISTORY

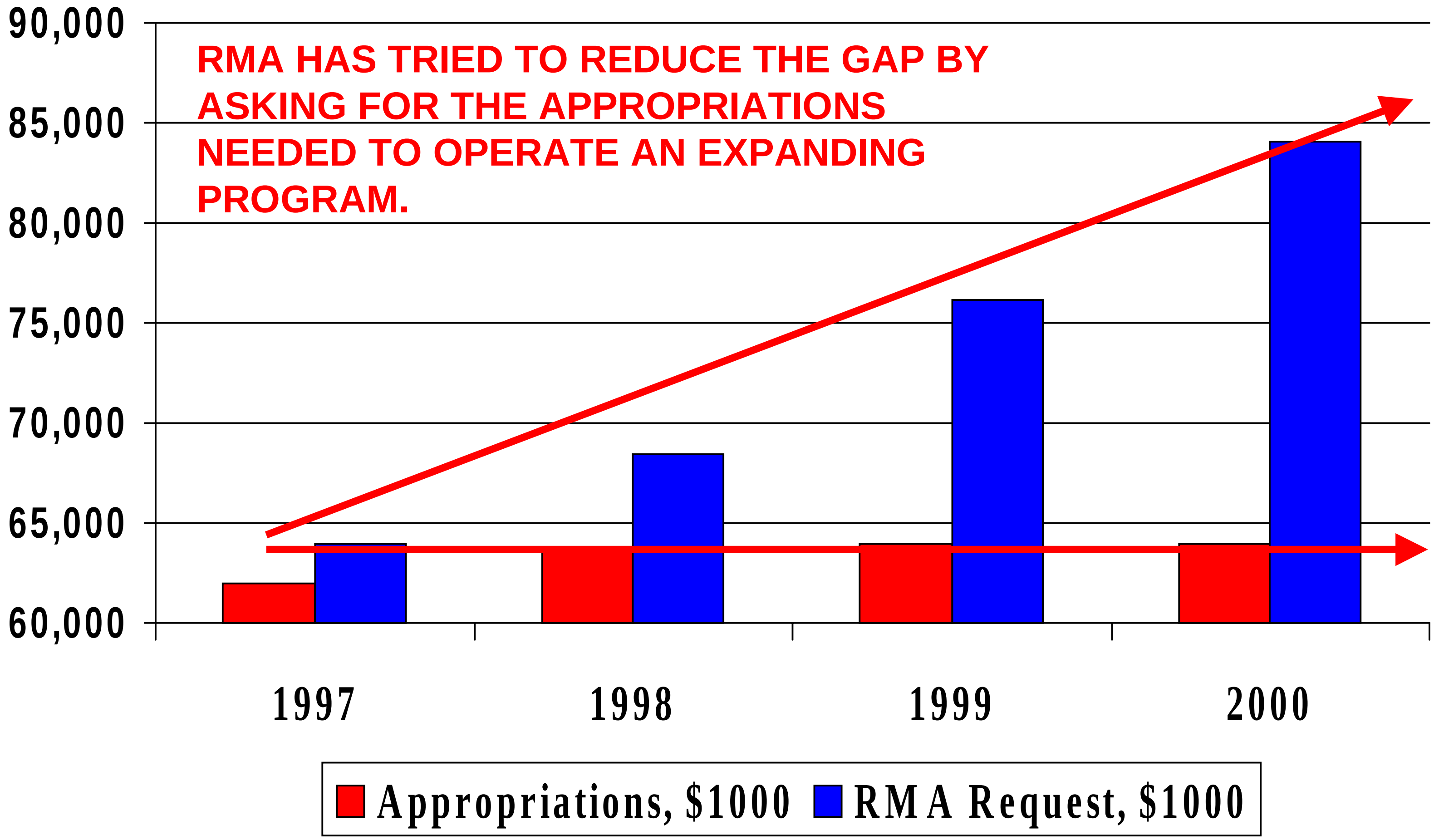
- **More farmers are using insurance to manage risks than ever before.**
- **Program size has tripled in a period of declining Federal Budgets.**
- **Before looking forward, let's look at the:**
  - **Current program characteristics and challenges**
  - **Agency's plans**



# RMA HAS HAD TO SLOW DOWN NEW PRODUCTS BECAUSE RESOURCES HAVE NOT KEPT UP WITH PROGRAM GROWTH



# RMA HAS NOT RECEIVED THE APPROPRIATIONS IT NEEDS.

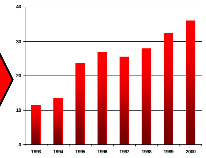


# STRATEGIC OBJECTIVE #1

## PRODUCERS HAVE ECONOMICALLY-SOUND RISK MANAGEMENT TOOLS AVAILABLE TO MEET THEIR NEEDS

- **HOW DOES RMA CONTINUE TO TRY TO SERVE MORE PRODUCERS WITH LIMITED FUNDS?**
- **RMA HAS A STRATEGY AND WOULD LIKE THE BOARD'S THOUGHTS.**
- **TO ASSIST IN THESE DELIBERATIONS, WE WILL REVIEW THE CURRENT STATE OF OUR PROGRAM.**
- **THEN, WE WOULD LIKE TO DISCUSS SEVERAL IDEAS AND PLANS FOR INCREASING THE NUMBER OF EFFECTIVE PRODUCTS AVAILABLE TO AMERICA'S FARMERS AND RANCHERS.**

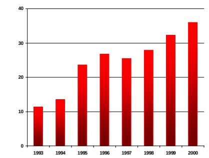
**DURING THIS DISCUSSION, PLEASE KEEP THIS GROWTH IN MIND. MUCH HAS BEEN ACCOMPLISHED.**



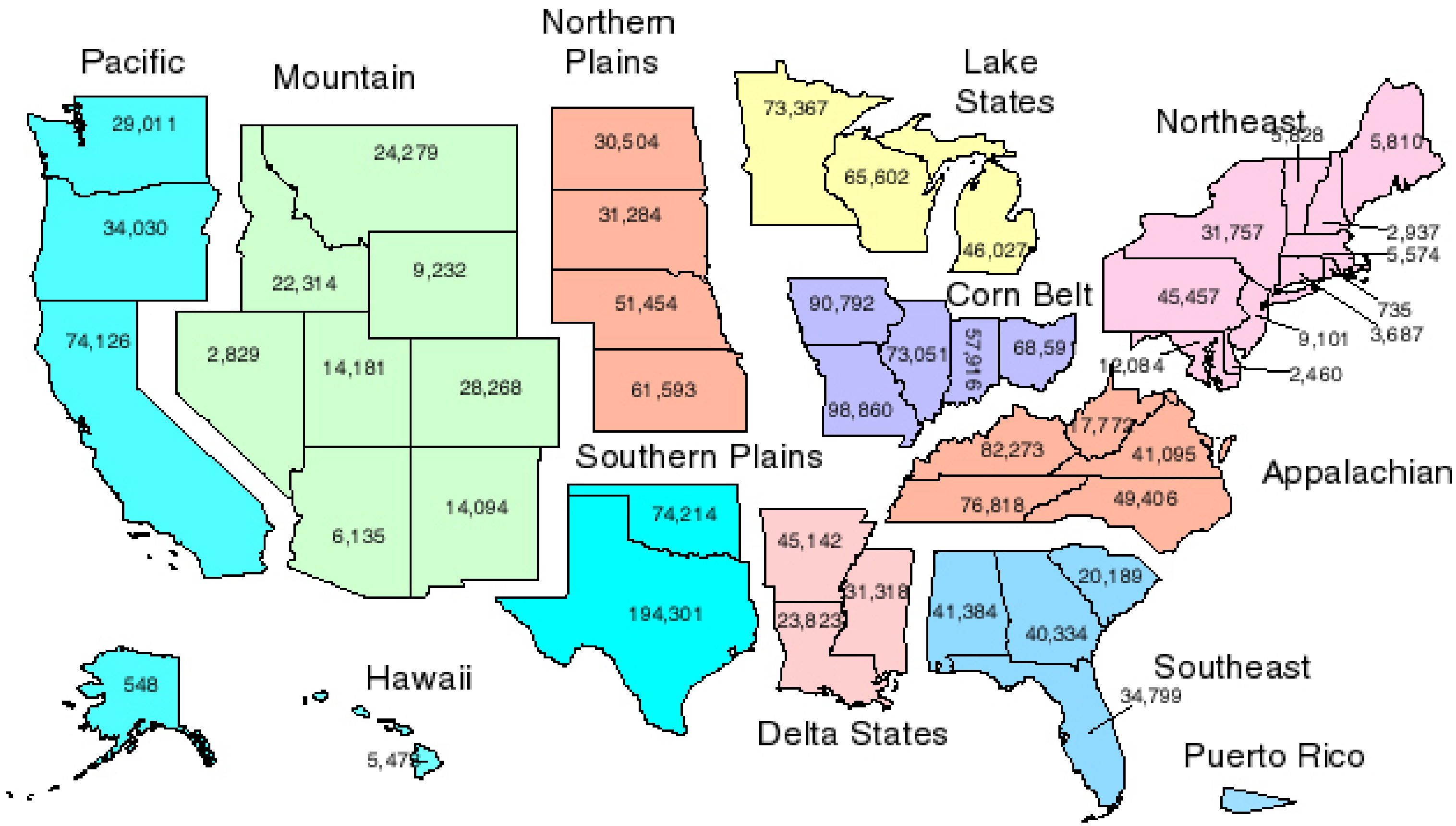
# WHAT DO WE KNOW ABOUT OUR CUSTOMERS - U.S. FARMERS

*A FARMER IS SOMEONE WHO PRODUCES MORE THAN $1,000 PER YEAR OF AGRICULTURAL PRODUCTS (USDA DEFINITION)*

- **WHO ARE THEY?**
  - **Where do they live? What do they grow?**
  - **What different segments exist?**
- **HOW MANY USE OUR PRODUCTS?**
  - **What do they buy, & why?**
  - **Who doesn't buy, & why?**
  - **Do purchasing patterns vary and, if so, how?**
- **WHAT DOES THE FUTURE HOLD, AND THUS, WHERE DO WE NEED TO FOCUS?**
- **DOES OUR STRATEGY MATCH THIS FOCUS?**



# NUMBER OF PRODUCERS BY STATE




1997 Census of Agriculture

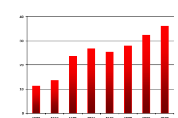
# PRODUCERS ARE NOT HOMOGENEOUS

## THEIR CHARACTERISTICS AND RISK MANAGEMENT NEEDS VARY
## USDA HAS DEFINED SEVEN SEGMENTS BASED ON REVENUE

**Most limited-resource farmers have a negative income. They are losing money. Their biggest need is for income.**

| USDA Farm Definition | Distribution | | Positive Net Income | Share Grain Farms | Share Other Field Crops | Share High Value Crops | Mean Gross Income |
|---|---|---|---|---|---|---|---|
| | *%total* | *%acres* | *- - - - - - - - - - - - -* | *Percent* | | *- - - - - - - - - - - - -* | *Dollars* |
| **Limited-resource** | 12.1 | 3.7 | 37.1 | 12.6 | 18.8 | 4.6 | 9,630 |
| **Retirement** | 12.5 | 5.0 | 46.1 | 7.9 | 29.3 | 2.5 | 14,531 |
| **Residential** | 34.6 | 13.5 | 30.0 | 15.0 | 12.8 | 4.0 | 14,409 |
| **Primary occupation:** | | | | | | | |
| Sales<$100,000 | 24.4 | 29.0 | 55.9 | 22.9 | 10.7 | 10.3 | 38,155 |
| Sales>$100,000 | 9.4 | 20.4 | 83.8 | 37.3 | 7.6 | 6.6 | 157,476 |
| **Large Family Farm (>$250,000 sales)** | 3.5 | 11.9 | 87.5 | 38.3 | 10.6 | 6.5 | 312,650 |
| **Very Large Family Farm (>$500,000 sales)** | 2.1 | 8.9 | 89.9 | 20.9 | 10.6 | 17.7 | 1,076,456 |
| **Non-family** | 1.5 | 7.6 | 68.9 | 17.7 | 29.8 | 26.3 | 549,834 |

**Most large family farms made money. Their financial needs are very different from those of limited-resource farmers—one size does not fit all.**

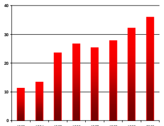


# WHICH REVENUE-BASED SEGMENTS DO WE SERVE?

**We don’t know. The Privacy Act makes it difficult for us or any other federal agency to share the types of data needed to determine the income characteristics of our customers. This is a significant issue, as a farmers’ revenue dramatically affects risk. For example, does a Residential Farmer need more risk management than their off-farm income? Some won’t. Efforts are underway to address this issue (e.g., The NASS Ag. Census). The one limited exception so far is the segment of:**

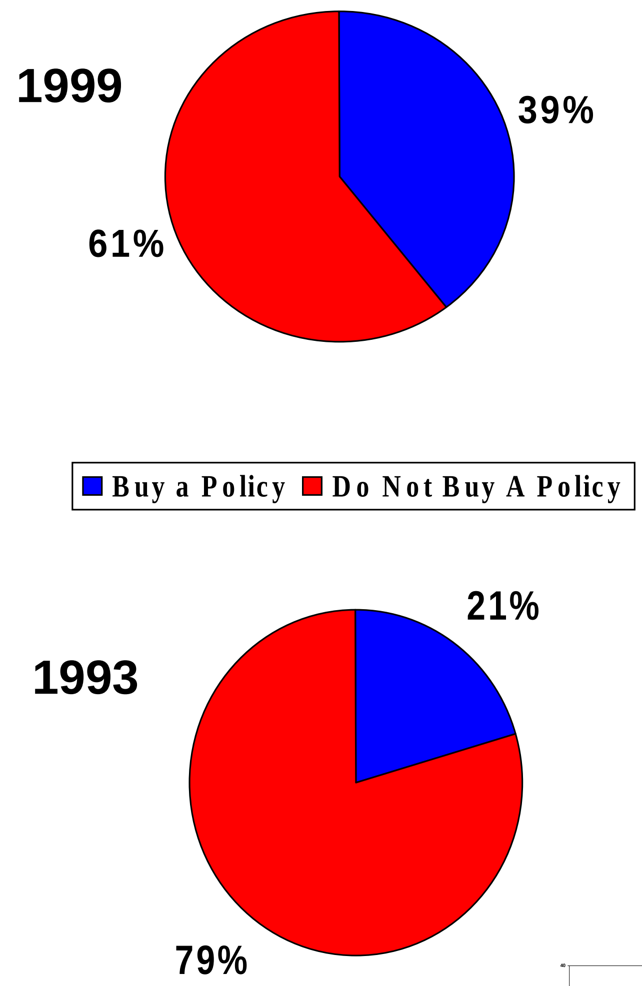
**LIMITED RESOURCE FARMERS - These are the most vulnerable and at risk farmers. The majority do not make money farming. Less than 0.5% of our customers are limited resource farmers, who represent roughly 12% of farmers. We have asked Congress to help us address this segment by allowing us to try to develop a product more tailored to their needs.**

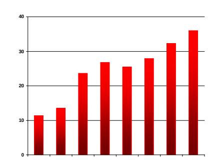
**SO, WE’VE LOOKED AT OTHER WAYS TO SEGMENT OUR MARKET.**



# HOW MANY PRODUCERS BUY INSURANCE?

- IN 1999, 777,000 FARMERS PAID PREMIUMS ON ROUGHLY 1.3 MILLION POLICIES.
- 38.5% OF THE 2.1 MILLION U.S. PRODUCERS BUY A POLICY.
- THIS IS A DRAMATIC IMPROVEMENT SINCE 1993 WHEN ONLY 21% HAD A POLICY
- WE BELIEVE THE REASONS WHY SOME PRODUCERS DO NOT BUY A POLICY INCLUDE:
  - THEY RAISE LIVESTOCK, WHICH WE ARE NOT ALLOWED TO DIRECTLY INSURE
  - THEY MAY USE OTHER MEANS OF RISK MANAGEMENT
  - FOR MANY FARMERS, FARMING IS NOT THEIR PRIMARY SOURCE OF INCOME.  ANOTHER JOB IS THEIR INSURANCE.

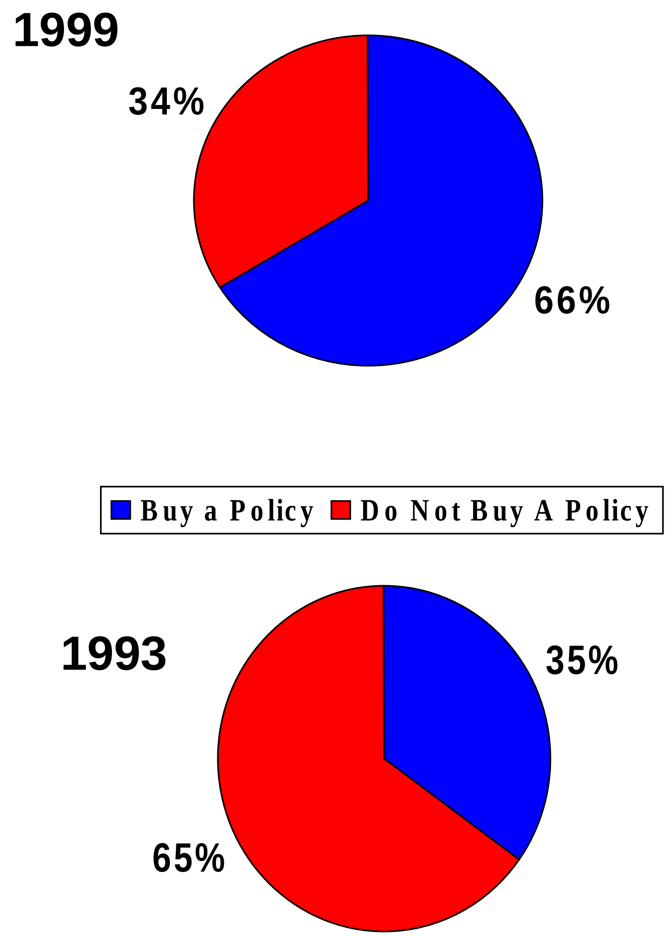


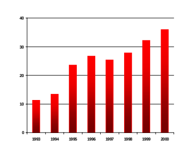
# EXCLUDING LIVESTOCK - WHAT ARE THE AGGREGATE STATISTICS?

- EXCLUDING PRODUCERS OF LIVESTOCK PRESENTS A VERY DIFFERENT PICTURE-RMA/FCIC SERVES THE MAJORITY OF FARMERS
- CONGRESS IS DEBATING WHETHER TO PROVIDE FCIC THE AUTHORITY TO COVER LIVESTOCK.
- OTHER OPTIONS TO REACH LIVESTOCK PRODUCERS ARE LIMITED, BUT DO EXIST.

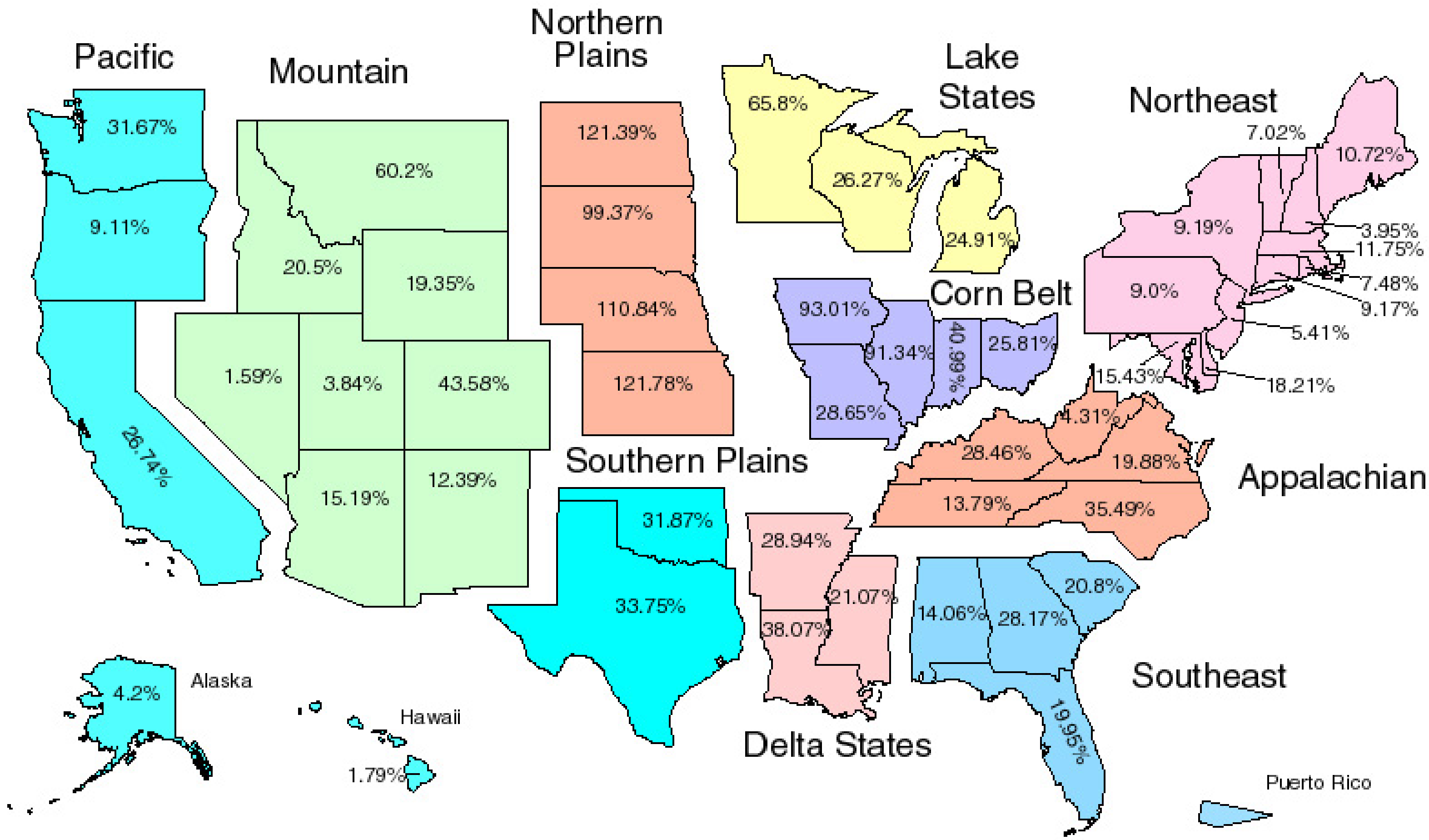
**CONCLUSION: REACHING LIVESTOCK PRODUCERS IS KEY TO EXPANDING RISK MANAGEMENT.**




PERCENTAGES ARE ESTIMATES BASED ON LIMITED DATA.



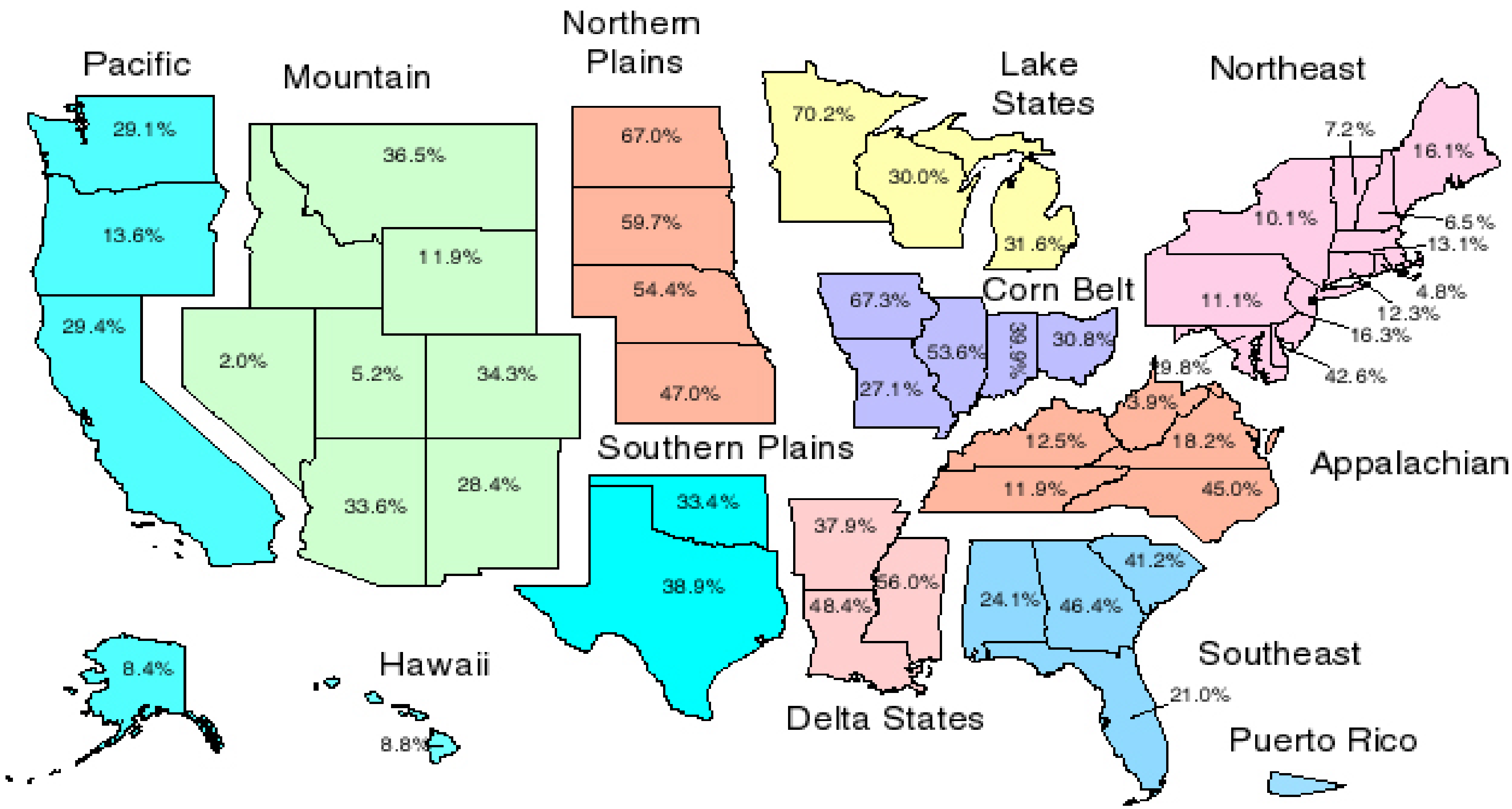
# RELATIVE PERCENTAGE OF PRODUCERS BUYING CROP INSURANCE




**Note: The percentage is greater than 100% in some cases because a farm may have more than one individual with an insurable interest. The data also include other producers (livestock) which FCIC does not presently serve. These data help tell us where we need to focus for future growth.**

SSN and EIN number provided by RMA, R&D, KC
Total number of farms from 1997 Censusof Agriculture

# PERCENT OF FARM ACRES INSURED

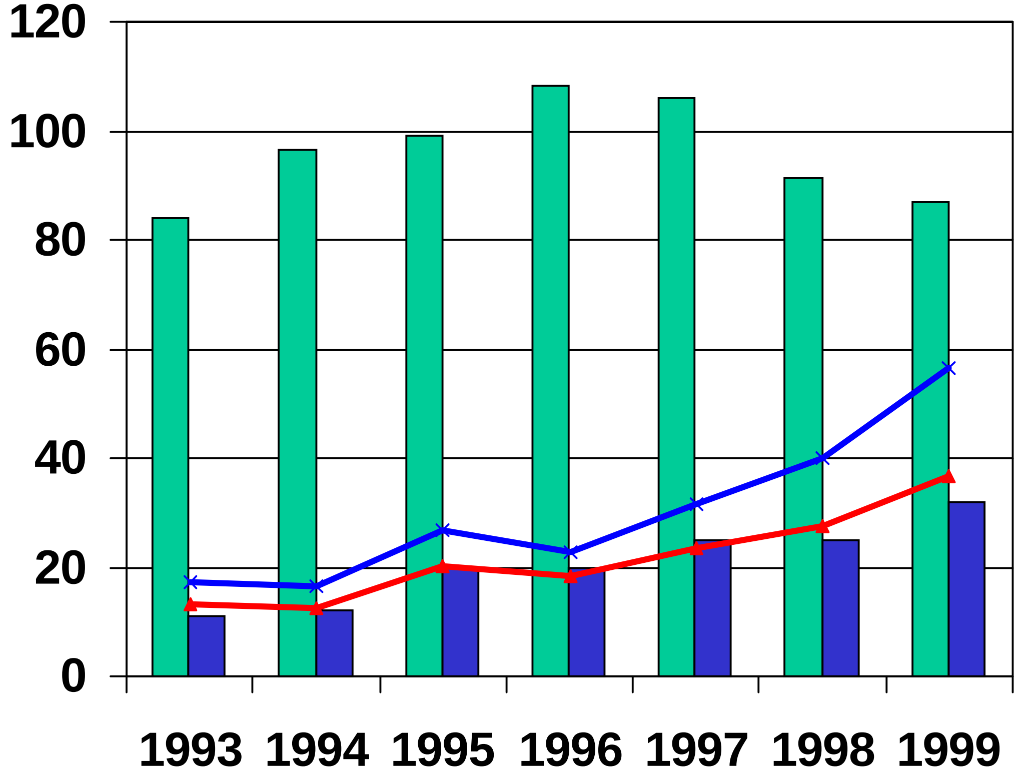



**DOES NOT EXCLUDE ACREAGE WHICH IS NOT PRESENTLY ELIGIBLE FOR INSURANCE (LIVESTOCK).**

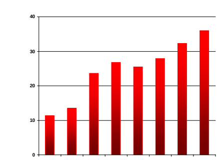
1997 Census of Agriculture
1997 RMA Insured Acres

# PERCENTAGE OF U.S. CROP PRODUCTION COVERED BY INSURANCE

## COVERAGE IS INCREASING AS A RESULT OF PRODUCT EXPANSION AND PREMIUM DISCOUNTS

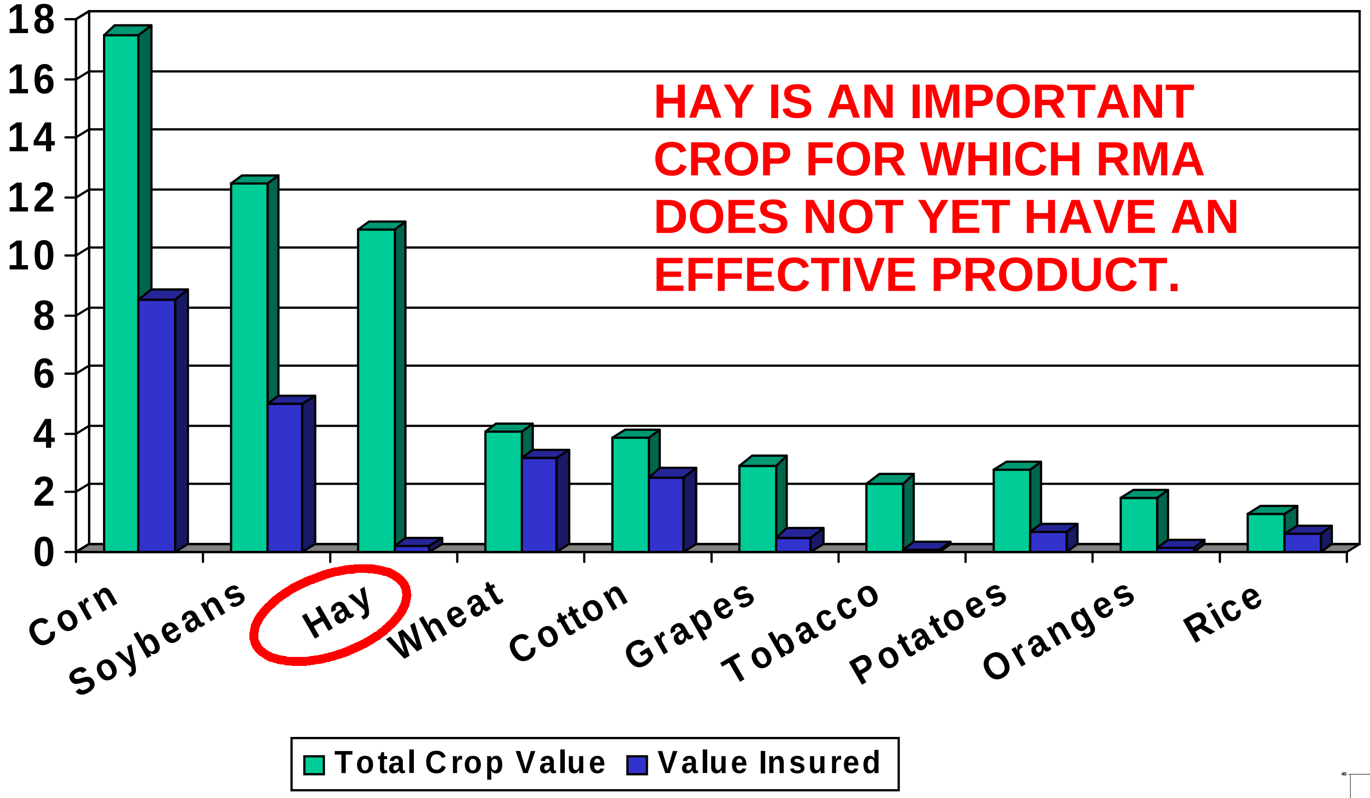


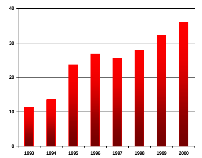

**THE PREMIUM DISCOUNT CONTRIBUTED TO FARMERS BUYING HIGHER COVERAGE LEVELS BY LOWERING THEIR COST TO GET MORE COVERAGE.**



**NOTE: ASSUMES 75% MAXIMUM COVERAGE LEVEL.**

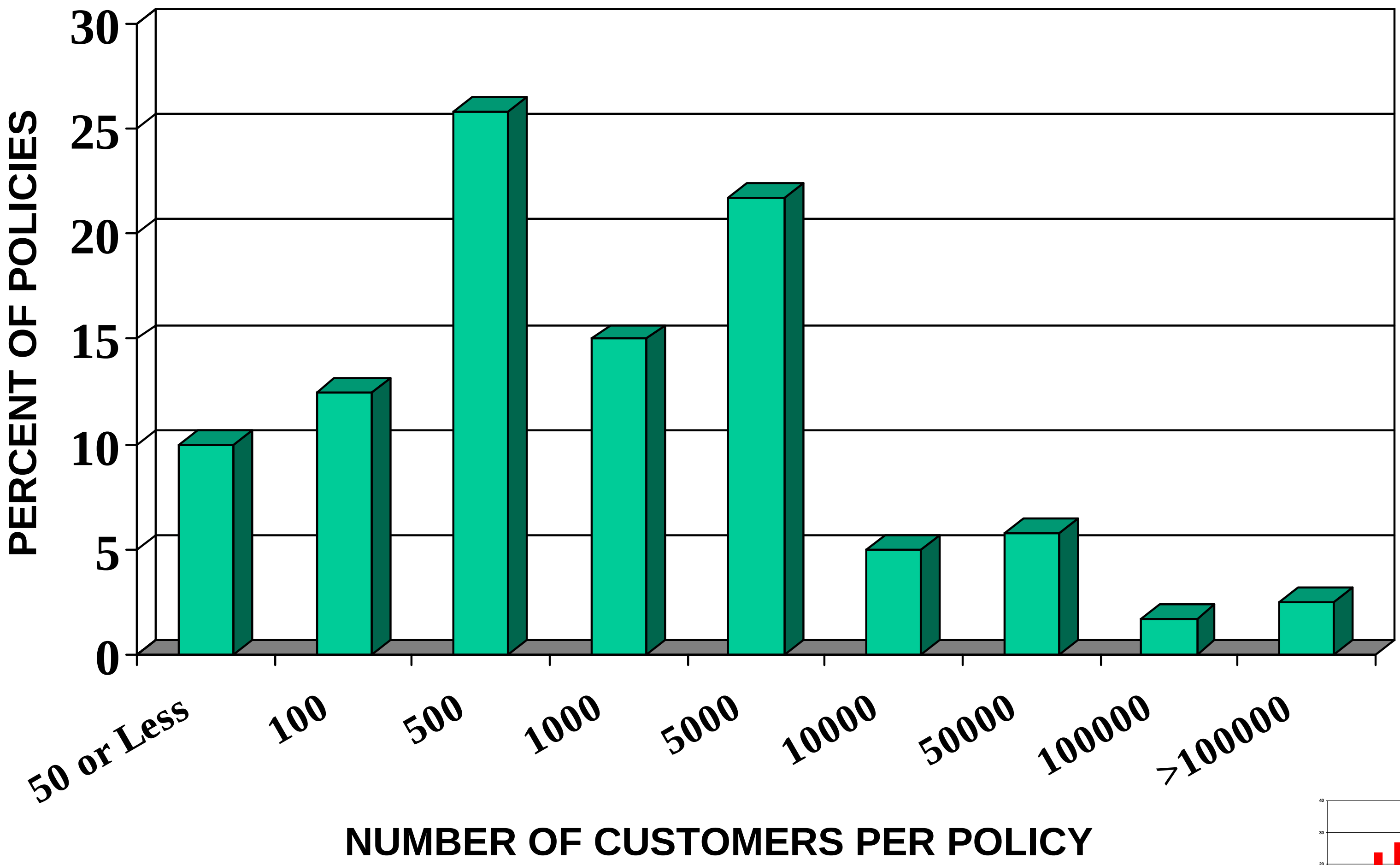
# 1999 COVERAGE OF THE TOP 10 VALUE U.S. CROPS - MOST OF THE VALUE IS IN THESE CROPS

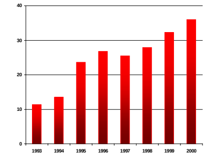


# DISTRIBUTION OF POLICIES SOLD NOW

**SOME PRODUCTS DO NOT HAVE MANY CUSTOMERS - RMA WILL EVALUATE THE COST/BENEFIT OF THESE POLICIES TO DETERMINE IF RESOURCES COULD BE BETTER UTILIZED ELSEWHERE**



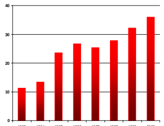
# SOME OF THE LOW PARTICIPATION PROGRAMS - MANY ARE PILOTS

**Example PERMANENT (non-pilot) programs that had fewer than 100 policies earning premium for the 1999 crop year (number of policies shown):**

- Peanuts (GRP) - 0
- Grain Sorghum (GRP) - 19
- Macadamia Nuts - 33
- Macadamia Trees - 34
- Cotton (GRP) - 45
- Wheat (RA) - 52
- Green Peppers ($) - 62
- Figs (APH) - 65
- Wheat (GRP) - 80
- Fresh Tomatoes ($) - 93

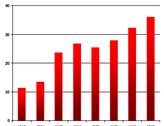
**Example PILOT programs that had fewer than 100 policies earning premium for the 1999 crop year (partly due to limited availability of pilot programs):**

- Cotton (IP) - 8
- Soybeans (IIP) - 16
- Grain Sorghum (IP) - 26
- Florida Avocados (APH) - 35
- Cabbage (APH) - 55
- Cultivated Wild Rice (APH) - 57
- Adjusted Gross Revenue - 58
- Wheat (IP) - 67
- Mustard (APH) - 79
- Crambe (APH) - 98



# KNOWING FARMERS' PREFERENCES CAN HELP US REACH NEW CUSTOMERS

- **RMA HAS SPONSORED SEVERAL EFFORTS TO LEARN MORE ABOUT OUR CUSTOMERS:**
  - **SURVEY OF ACTUAL FARMERS ON THEIR PREFERENCES**
  - **ERS LONGITUDINAL STUDY OF WHAT FARMERS ACTUALLY PURCHASE OVER TIME**
  - **RESEARCH ON OTHER STUDIES OF THE PURCHASE OF INSURANCE**
- **WHAT FARMERS BELIEVE TO BE TRUE CAN BE MORE IMPORTANT THAN WHAT IS ACTUALLY TRUE. PEOPLE ACT ON WHAT THEY BELIEVE.**
- **IF WE'RE GOING TO INCREASE SALES IN LOW PARTICIPATION AREAS, WE NEED TO KNOW WHY THE INDIVIDUALS AREN'T BUYING.**



# WHAT FACTORS INFLUENCE THE DECISION TO BUY CROP INSURANCE

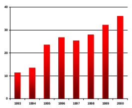
USDA'S ECONOMIC RESEARCH SERVICE IS CONDUCTING A LONGITUDINAL STUDY FOR RMA, TRACKING WHAT FARMERS HAVE ACTUALLY PURCHASED EACH YEAR.

NEW PRODUCTS, PARTICULARLY REVENUE PRODUCTS, HAVE HELPED KEEP FARMERS BUYING INSURANCE AND HAVE BROUGHT IN NEW CUSTOMERS!

INITIAL INDICATIONS OF FACTORS THAT INFLUENCE CHOICE (IN ORDER):

- PREVIOUS YEAR CHOICE
- YIELD RISK
- EXPECTED INDEMNITY
- COST
- FARM SIZE
- LOSS FREQUENCY
- FARM PRACTICE & OWNERSHIP

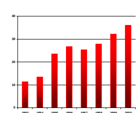
BASED ON DATA FROM IOWA CORN FARMERS - REGIONAL DIFFERENCES ARE EXPECTED TO EXIST. THIS EFFORT SHOULD BE COMPLETED IN FY2001 AND THE RESULTS WILL BE AVAILABLE TO THE PUBLIC.



# <u>INITIAL</u> IMPLICATIONS OF THE LONGITUDINAL STUDY

- <u>PREVIOUS YEAR CHOICE</u> - PEOPLE WILL TEND TO STAY WITH LAST YEAR'S DECISION (INCLUDING NO CHOICE).
- <u>YIELD RISK</u> - THOSE AT MORE RISK ARE MORE LIKELY TO BUY INSURANCE.
- <u>EXPECTED INDEMNITY</u> - HOW MUCH PROTECTION THEY EXPECT TO RECEIVE AFFECTS PURCHASE.
- <u>COST</u> - COST IS ALSO A FACTOR.
- <u>FARM SIZE</u> - APH IS FAVORED BY SMALLER FARMS.
- <u>LOSS FREQUENCY</u>- THE TIME SINCE THEIR LAST LOSS IS A FACTOR - A RECENT LOSS FAVORS PURCHASING.
- <u>FARM PRACTICE & OWNERSHIP</u> - WHO OWNS THE FARM?
- NEW PRODUCT DEVELOPMENT AND EXISTING PRODUCT IMPROVEMENT SHOULD INCLUDE THESE CONSIDERATIONS.

**BASED ON DATA FROM IOWA CORN FARMERS - REGIONAL DIFFERENCES ARE EXPECTED TO EXIST..**

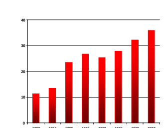


# SALES OF "PROBABILISTIC PRODUCTS"

## OTHER RESEARCH INDICATES THAT LOSS FREQUENCY MORE THAN LOSS AMOUNT INFLUENCES PURCHASING DECISIONS

| Prob(Loss) | Loss Amount, $ | Premium Amount, $ | % Buying |
|---|---|---|---|
| 0.002 | 247,500 | 500 | 33 |
| .01 | 49,500 | 500 | 42 |
| .05 | 9,900 | 500 | 52 |
| .1 | 4,950 | 500 | 49 |
| .25 | 1,980 | 500 | 73 |

**FARMERS FACING MORE RISK ARE MORE LIKELY TO BUY - ALL ELSE BEING EQUAL. (ALL ELSE IS SELDOM EQUAL). THIS TYPE OF BEHAVIOR WOULD TEND TO SURPRESS SALES IN "LOW RISK" AREAS.**



# WHAT DO FARMERS PERCEIVE AS RISKS?

| Factor | Potential Effect (1=low – 5=high) |
|---|---|
| Crop price variability | 4.6 |
| Crop yield variability | 4.1 |
| Input costs | 3.9 |
| Farm programs | 3.8 |
| Environmental regulations | 3.6 |
| Land rents | 3.1 |

**PRICE RISK AND YIELD RISK CONTINUE TO DOMINATE AS AREAS OF GREATEST CONCERN. (3=MIDPOINT)**