

**TESTIMONY**  
**By**  
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**For The**  
**AMERICAN ASSOCIATION OF CROP INSURERS**  
**To**  
**HOUSE OF REPRESENTATIVES**  
**AGRICULTURE SUBCOMMITTEE ON**  
**GENERAL FARM COMMODITIES AND RISK MANAGEMENT**

**Washington, D.C.**  
**June 20, 2019**

Good morning Mr. Chairman and Members of the House Agriculture Subcommittee on General Farm Commodities and Risk Management. My name is Mike Davenport and I am the Chief Operating Officer of Rain and Hail LLC, a Chubb Company. Rain and Hail is one of the U.S. Department of Agriculture (USDA) Risk Management Agency's (RMA) Approved Insurance Providers (AIP), writing nearly two billion dollars of premium in 48 states. Furthermore, Rain and Hail has marketed and serviced federal crop insurance policies throughout the history of the public / private partnership, which was authorized by the Federal Crop Insurance Act of 1980. We are celebrating our 100-year anniversary of serving the American Farmer this year and are the largest writer of Federal Crop Insurance.

Today, I am testifying as Chairman of the American Association of Crop Insurers (AACI). A trade association with membership unique to the crop insurance industry that includes all private sector business components involved in marketing and servicing the federal crop insurance program. On behalf of the Board of Directors and members of AACI, I want to thank you for scheduling this hearing and the opportunity to provide comment on how farm policies – such as crop insurance and disaster programs – assist farmers in adverse conditions.

Although Federal crop insurance has been around since 1938, it wasn't fully utilized until almost 60 years later. During this time, natural disaster management typically came in the form of ad hoc disasters bills which were slow in delivering assistance, very costly, and relied completely on taxpayers to fund. It was the legislation created in 1994, 2000 and 2014 that helped kick start involvement from the private sector, made the program more actuarially sound, encouraged participation, and improved availability of coverage. With the continued bipartisan support for the public-private partnership crop insurance provides, farmers are able to receive a reliable and cost-efficient safety net to protect both themselves and the future of farming.

Every year some part of the U.S. experiences a natural disaster. Farmers know their business is subject to the whims of Mother Nature. Every year farmers intend to grow and harvest a crop. For this reason, the U.S. has a crop insurance program to help farmers mitigate production losses and to some extent price risk. I would be remiss if I didn't thank you, members of the House Agriculture Committee as well as members of the Senate Agriculture Committee for continuing to invest in crop insurance, most recently with the passage of the 2018 Farm Bill. Thank you.

**Crop Insurance: Flexible, Affordable, Available, Predictable**

Crop insurance is the premier risk management tool for the American farmer. A number of factors combine to make crop insurance the cornerstone of many farmers' financial and risk management plans: the ability to tailor coverage to their own operation at a meaningful level and affordable price, the comfort of working with a local

and trusted insurance professional and the knowledge that crop coverage is in place and can be counted on for financial planning purposes. Throughout time, these crop insurance benefits have accounted for the success and acceptance of the program and will continue to do so well into the future.

**Flexible** - Farmers can tailor their coverage to fit the needs of their specific operation. They have a choice of coverage levels that range from 50% to 85%. Numerous coverage plans are available for a variety of crops, including Multiple Peril Crop Insurance yield guarantee protection, revenue products that provide yield loss and price protection, and area coverage programs, which provide broad-based, simple yield or revenue protection on a county basis. The variety of coverage and product levels that are available provide growers with the opportunity to obtain the coverage that best fits their own operational and risk management needs.

**Affordable** - Because the government shares in the risk and administrative premium costs, growers can purchase crop insurance at more affordable premium prices. This cost-sharing arrangement makes it possible for many growers to secure better coverage than they otherwise could afford without government assistance. The result is affordable protection for growers and manageable costs for taxpayers.

**Available** - Private sector delivery provides competitive, localized service for growers because they can purchase crop insurance from the local agent of their choice. Additionally, private industry competition ensures prompt service on claims. This widespread availability creates choice and competition that help protect and stabilize rural economies and small-town businesses across America.

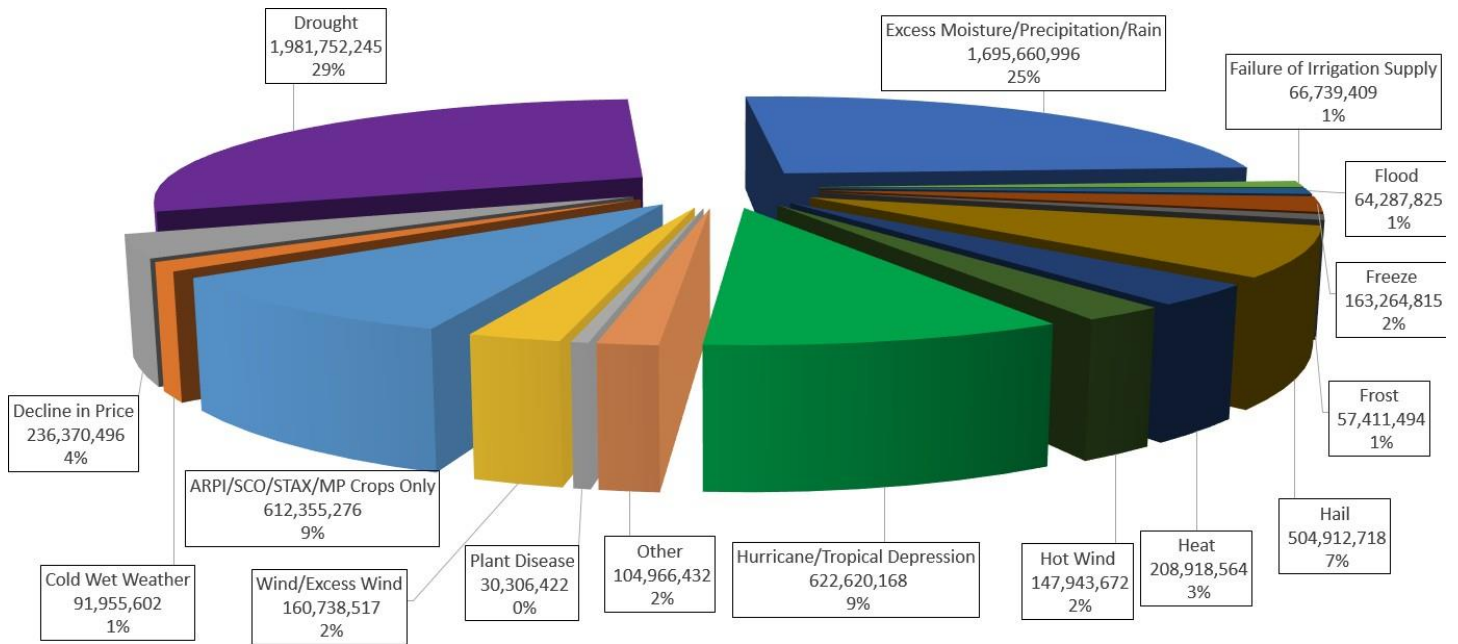
**Predictable** - Unlike disaster payments, crop insurance is predictable. Farmers, and their lenders, know what their protection is before they plant their crop. From the taxpayers' standpoint, crop insurance is more economical than disaster payments because the growers pay a significant portion, around \$4 billion annually, of the cost themselves. The public cost share of the program is a manageable budget item for the government, while disaster payments are normally an ad hoc item subject to funding availability. Crop insurance also assures a stable and secure food supply—an important component of national security.

The bottom line is that the crop insurance program is successfully meeting the needs of thousands of farmers who can tailor their risk management needs to serve them best with the help of a local agent. This protection represents a good value for America's taxpayers when compared to other alternatives for addressing shortfalls in agriculture production.

In closing, I want to assure the Committee we are ready to work prevented planted insurance claims as soon as farmers file their claims. This will timely and efficiently infuse capital into farming operations and rural communities. As an industry, we are prepared financially to pay any and all legitimate claims. While we are focused on prevented planted claims right now, we are also mindful that the late planting will create a shorter growing season and are ready to assist farmers as the season develops. We fully understand the significant job before us and are ready to fulfill the promises of the Federal Crop Insurance Program to each and every farmer who purchased a policy. Thank you again for this opportunity to testify and I look forward to answering your questions.

## Why U.S. Crops Fail – 2018

The chart below illustrates what caused crops in the U.S. to fail during 2018. 2018 was a fairly typical year for crop losses in the U.S. Some of the largest causes of crop failure are excess moisture and drought. Excess moisture can severely damage a crop, significantly reduce quality and lead to other issues such as prevented planting.



“Other” includes but is not limited to: Wildlife, Cold Winter, Other, Snow, Lightning, Fire, Mycotoxin, Insects, Failure of Irrigation Equipment, Volcanic Eruption, House Burn (Pole Burn), Tornado, Excess Sun, Inability to Prepare Land for Irrigation, Earthquake, Cyclone, Falling Numbers, Asian Soybean Rust, Storm Surge, Ice Flow, Federal or State Ordered Destruction.

Source: RMA Cause of Loss Historical Data Files <https://www.rma.usda.gov/SummaryOfBusiness/CauseOfLoss>

## Crop Insurance Basics

### **Government Involvement**

Crop losses tend to be correlated, unlike other insured losses that tend to be independent, random events. For example, when drought strikes, it generally impacts a large geographic area. This tendency toward correlation of crop losses prevented the commercial development of Multiple Peril policies for many years. For insurance companies, correlation of losses means capital requirements are higher in order to maintain adequate reserves to cover widespread losses. For farmers, correlation of losses means premiums are unaffordable. Generally, when a single event occurs that results in multiple losses, insurers refer to the event as a catastrophe. In crop insurance, catastrophic losses are the norm rather than the exception.

Conversely, a private market has existed since the early 20th century for Crop-Hail and Fire insurance because these losses are not generally correlated across wide geographic areas. Production risk varies significantly across the country. Without government involvement, producers in high-risk production areas would have fewer affordable risk management options.

### **Production History Determines Coverage**

The farmer’s yield history for the unit to be insured (the Actual Production History, or APH) determines the grower’s premium rate as well as the grower’s yield guarantee. Farmers document their yield history and the

APH is the simple average of 4-10 years of historical yields for the insured unit. Farmers who lack four years of yield records can still get crop insurance by using a Transitional or T-Yield. To calculate the T-Yield, the insurer can offer coverage based on the county 10-year average as determined by the National Agricultural Statistical Service (NASS).

## **Yield and Price Coverage**

Farmers are able to insure historical production. The MPCCI guarantee is the product of the farmer's APH and the selected coverage level. Coverage levels range from 50% to 85%, in 5% increments (80% and 85% coverage levels are not available in all areas). Separate coverage levels may also be elected between an irrigated practice and a non-irrigated practice for the same crop/county. The chosen coverage level sets the farmer's deductible. For example, if the 65% coverage level is elected, the deductible is 35%. Any covered loss greater than 35% results in a loss payment. Revenue protection, now the most popular choice of coverage (see tables below) offers comprehensive protection through a dollar guarantee based on commodity exchange prices. Revenue protection also provides prevented planting and replant protection. A projected price is used to calculate premium and a harvest price is also calculated. Claims are calculated from the higher of the projected or harvest price.

## **Liability**

The liability is the maximum amount the farmer could collect if the yield is zero. Per acre liability is equal to approved yield multiplied by coverage level, price and insured share. For example, for a soybean farmer who elects a 75% coverage level, has an approved yield of 50 bushels per acre, elects a price of \$10.00 and has a 100% insurable share, liability would be:  $50 \times 0.75 \times \$10.00 \times 1.0 = \$375.00$  per acre.

## **Premium Determination**

The premium is the annual cost paid by the producer for insurance protection. A portion of the premium is discounted by the federal government. The premium is a proportion of the liability and is determined by multiplying the liability by a premium rate. The MPCCI rate, which is set by the USDA, is an average based on the historical loss experience of crop insurance participants growing the crop in the county. This average rate becomes the basis for determining an individual farmer's premium rate. A farmer's rate depends on the relationship between his APH for the crop and the average yield in the county. Lower yields, assumed to be riskier, receive a higher rate; higher yields are assumed less risky and receive a lower rate. Rates are also adjusted for unit size. Unlike other insurance programs, the crop insurance premium is not paid when insurance coverage begins. Rather, the premium is due and payable after the crop has been harvested or when an indemnity payment is made, whichever is earlier. This setup provides farmers a benefit since they do not have to pay the premium up front. On the other hand, crop insurance companies are not able to earn interest on premium collections as they do for other insurance products.

## **Premium Assistance**

The federal government provides two basic form of assistance for crop insurance: providing a discount for producer premiums and providing reinsurance for high-risk production areas. The premium assistance has two components: 1) Assistance of the premium associated with production/price risk; and 2) In lieu of risk premiums being expense loaded, the federal government pays Administrative & Operating (A&O) costs on behalf of the farmer. A&O payments have steadily declined since 1995, when they were set at 31.0% for MPCCI buy-up coverage and 14.0% for CAT. A&O payments do not cover all of an approved insurance companies' expense. As A&O payments have declined over time, these expenses have continued to increase with insurance providers being burdened by additional Federal requirements. Because expenses tend to increase over time but A&O payments are essentially locked-in under the terms of the SRA, the shortfall is expected to increase in future years.

## **Prevented Planting Coverage**

Given the extremely wet weather the U.S. has experienced this year, I thought a more detailed explanation of prevented planting (PP) coverage would be helpful. PP is defined as the failure to plant the insured crop by the final planting date designated in the Special Provisions for the insured crop in the county, or within any applicable late planting period, due to an insured cause of loss that is general to the surrounding area and that prevents other producers from planting acreage with similar characteristics. Failure because of uninsured causes such as lack of proper equipment or labor to plant the acreage, or use of a particular production method, is not considered prevented planting

### *Insurability*

The acreage must be insurable; meaning it has been planted and harvested or insured in at least one of the three previous crop years. The cause of loss must also occur within the insurance periods for:

- New Crop Contracts: On or after the sales closing date (3/15/2019) for the insured crop in the county for the crop year the application for insurance is accepted;
- Renewal Crop Contracts: on or after the sales closing date for the previous crop year (3/15/2018) for the insured crop in the county, provided insurance has been in force continuously since that date.

### *Final Planting Date, Premium and Filing a Notice of Loss*

Producers must be mindful of final planting dates and late planting periods. A prevented planting notice of loss cannot be filed until after the final planting date and must be filed within 72 hours of determining that planting will not be completed within the Late Planting Period.

- The prevented planting coverage level is a percentage specified in the actuarial documents.
- Prevented planting acres must be reported on the acreage report and the per acre premium is the same as timely planted acres.

### *Eligible Prevent Plant (PP) Acres*

Eligible PP acres are determined by using the greatest number of insured acres for the prevented crop in one of the last four crop years (2015-2018). This is true for insureds who have grown a crop for which PP coverage was available. Insureds who have not will have eligible acres based on an intended acreage report filed by the sales closing date.

## **Agents and Insurance Companies**

Currently, fourteen companies and nearly 12,000 agents provide exclusive delivery of the crop insurance program. Insurance agents sell policies, interact with farmers to determine the best coverage, calculate the farmer's APH, provide premium quotes, and answer questions for their clients. Generally, companies do not directly market policies to farmers. Nearly all policies are sold through an agent. Insurance companies deliver the program. They contract and train agents, pay for marketing and advertising, hire and train loss adjusters, carry out loss adjustment activities, bill and collect premiums, process and verify applications, conduct APH reviews, process and verify acreage reports, pay claims, audit and verify claims data, process and send 1099 forms to farmers and the IRS, pay uncollected premiums and maintain the necessary automated data processing infrastructure to communicate data with USDA.

The policy is a contract between the insured and the insurance company, not the federal government. For the farmer to receive the federal premium assistance attached to the program, the private insurance policy must

follow the federal standards and rates. Because the policy is private, all premiums are owed to and guaranteed by the insurance companies.

## **Reinsurance**

Reinsurance is risk transfer and makes up an important part of the Federal Crop Insurance Program. Insurance companies transfer risk to other insurance companies who are willing to bear risk but are not necessarily interested in administering an insurance policy.

In addition to private reinsurance, the USDA offers reinsurance through the Standard Reinsurance Agreement (SRA). The SRA blends two basic kinds of reinsurance:

- 1) Pro-rata (proportional) reinsurance is embodied by two separate risk pools with varying degrees of risk sharing between reinsurance companies and the government. These risk pools are known as assigned risk and commercial funds. Companies must retain at least 35% of their business nationwide, and cession limits vary with each state (riskier areas have higher limits).
- 2) Excess of loss or stop loss reinsurance, under which the government agrees to accept all losses that exceed a certain loss ratio. These are applied by state funds. Besides ceding business directly to the USDA, some companies also secure additional reinsurance from the private reinsurance market.

## Participation Rates by State



Source: RMA Summary of Business as of 04/29/2019

2018 NASS eligible acres used to estimate production for the 2018 crop year.

2017 NASS eligible acres used for AK, CA, CT and SD to calculate % of eligible acres insured for the 2018 crop year. 2016 NASS eligible acres used for FL, MA and ME to calculate % of eligible acres insured for the 2018 crop year.

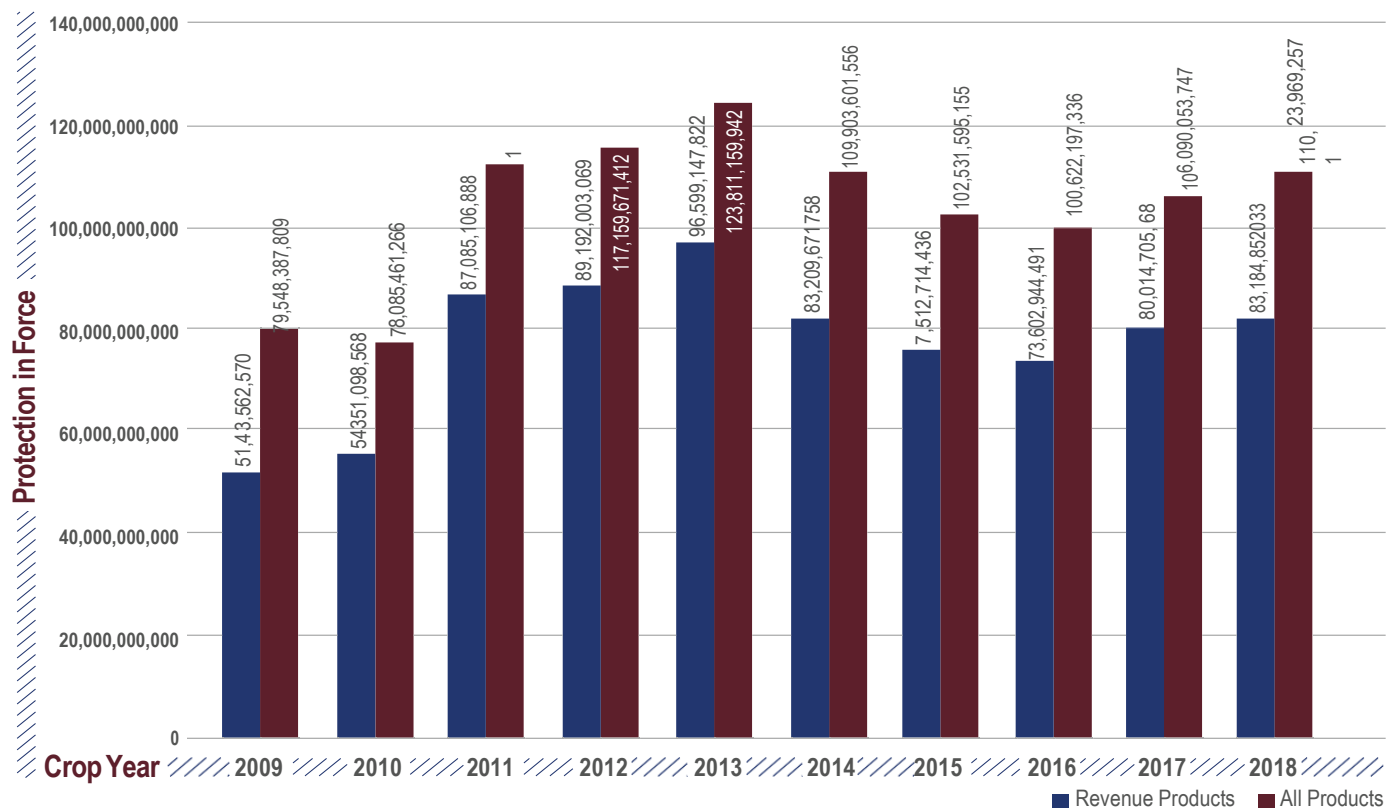
2012 NASS eligible acres used for HI, LA, MS and NV to calculate % of eligible acres insured for the 2018 crop year.

The percent of eligible acres insured has increased substantially since 1994. Congress passed the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 which created the underlying construct of the crop insurance program as we know it today. Prior to 1994 participation in crop insurance was not sufficient to run an actuarially sound program and ad hoc disaster bills were almost an annual occurrence. Congress provided additional premium assistance in the 2000 Agriculture Risk Protection Act and overtime crop insurance has become farmers primary risk management tool. As you can see from the map above, most farmers buy crop insurance, but some still choose to self-insure.

# 2018 PARTICIPATION DATA

## Protection In Force

- Growers are taking an increasingly active role in managing their farm specific risks.
- Revenue coverage is the risk management tool of choice, accounting for 75% of protection in force in the last decade.



Source: RMA Summary of Business as of 04/29/2019

U.S. Crop Insurance Snapshot					
	1994	2015	2016	2017	2018
Total Crop Contracts	1,047,830	2,237,405	2,206,911	2,183,111	2,162,157
Percent Buy Up Contracts	N/A	95%	95%	95%	96%
Protection in Force					
Total	\$13,608,387,369	\$102,531,595,155	\$100,622,197,336	\$106,090,053,747	\$110,123,969,257
Revenue Programs	N/A	\$76,512,714,436	\$73,602,944,491	\$80,014,705,688	\$83,184,852,033
Acres Insured	99,399,759	296,075,647	290,314,686	311,729,708	335,102,096
Percent of Eligible Acres Insured	33%	88%	86%	86%	87%
Percent of Eligible Acres Insured at Buy Up	33%	82%	81%	81%	83%
Farmer Paid Premium	\$694,519,685	\$3,678,455,434	\$3,461,958,164	\$3,716,869,683	\$3,629,508,906
Government Paid Premium	\$254,876,115	\$6,088,843,130	\$5,866,046,752	\$6,355,547,790	\$6,264,127,679
Total Premium	\$949,395,800	\$9,767,298,564	\$9,328,004,916	\$10,072,417,473	\$9,893,636,585
Losses Paid	\$601,146,242	\$6,314,572,680	\$3,910,260,359	\$5,419,458,122	\$6,785,436,220

Buy Up is any coverage greater than catastrophic coverage (50/55).

Crops included in area planted are corn, sorghum, oats, barley, rye, winter wheat, durum wheat, other spring wheat, rice, soybeans, peanuts, sunflower, cotton, dry edib  
2018 NASS eligible acres used to estimate production for the 2018 crop year.

2012 NASS total acres used for HI, LA, MS, NV and WY to calculate % of eligible acres insured in total and at buy up for the 2015 crop year.

2014 NASS total acres used for CA, ME, MO, TN and WA to calculate % of eligible acres insured in total and at buy up for the 2015 crop year.

2012 NASS total acres used for HI, LA, MS and NV to calculate % of eligible acres insured in total and at buy up for the 2016 crop year.

2016 NASS total acres used for CA, CT, ME and WA to calculate % of eligible acres insured in total and at buy up for the 2017 crop year.

2012 NASS total acres used for HI, LA and NV to calculate % of eligible acres insured in total and at buy up for the 2017 crop year.

2012 NASS total acres used for HI, LA, MS and NV to calculate % of eligible acres insured in total and at buy up for the 2018 crop year.

2016 NASS total acres used for FL, MA and ME to calculate % of eligible acres insured in total and at buy up for the 2018 crop year.

2017 NASS total acres used for AK, CA, CT and SD to calculate % of eligible acres insured in total and at buy up for the 2018 crop year.

2018 Losses as of 04/29/2019. Final 2018 losses will not be known until well into 2019.