Look For Changes In Corn, Soybean Crop Insurance Premiums

SARA WYANT

WASHINGTON, D.C.

For most of the last decade, members of the National Corn Growers Association (NCGA) has worked on finding different ways to improve risk management for their growers. One of their key findings was that many of their growers, especially those in the Midwest, were paying crop insurance premium rates that didn't accurately reflect their losses. In fact, they argued that corn growers were consistently overpaying and urged USDA's Risk Management Agency to change the methodology they used to establish premium rates.

For most of that same period, RMA suggested that changes were not necessary. But NCGA continued to offer data that finally convinced Administrator William Murphy to take another look.

After conducting an independent study and peer review, the agency announced that will now go ahead with the first phase of plans to update the methodology used to set crop insurance premiums, leading to lower insurance premium rates for many corn and soybean producers in the 2012 crop year and potentially other crops in the future.

The changes provide a more accurate reflection of current risks, along with yield trends and improvements made through biotechnology, according to RMA Administrator William Murphy. But for some growers and crop insurance industry sources, there are still a lot of unanswered questions.

"We are improving the formulation of our rate-making methodology, and are moving to establish the most fair and appropriate premium rates for today's producers," Murphy added. "The world has changed as far as corn and soybean production goes."

"On average, these new rates should reduce corn farmers' rates by 7 percent and soybean farmers' by 9 percent (for the 2012 crop year)," Murphy said. But in some regions, the reductions could be as high as 12 percent for corn and 13 percent for soybeans. Conversely, rates could also increase in some states and counties within states.

Murphy described the changes as one third of the base rate expected with full implementation of both corn and beans, with the other two-thirds expected next year. For corn, the RMA is incorporating reductions that were previously available through biotech yield endorsements, which were discontinued for 2012.

The rate adjustment is based on findings of an independent study, conducted by Sumaria Systems Inc., and a peer review process, which RMA plans to post on their web site.

Murphy said the "vast majority" of reviewers basically supported the concept of moving to the new methodology with the major change being a switch back to a rolling 20-year average of production data, a method used prior to 1995.

"There was some concern about how we adjusted for weather in the pre-1995 period, so we are going to be doing more analysis on that," he added.

"We want to make sure we get it right before we do the full implementation, so this will give us time and then hopefully, for the 2013 year for corn and beans, we will have it finalized." Murphy said that RMA also anticipates having the methodology finalized for 2013 spring wheat, rice, cotton, and grain sorghum.

Estimating the impact of this change on crop insurance purchases, premiums paid and the overall level of federal subsidy is difficult to determine at this point. With corn and soybeans making up about 65 percent of the crop insurance business, the potential impact could be substantial.

"Historically, when we have decreased the rates, growers have reacted by increasing coverage," Murphy explained. "We expect that will probably also be the same in this case, but it's kind of hard to put a number on it; so we don't know what the producer subsidy change is going to be."

The National Corn Growers Association praised the announcement.

"NCGA has been working on this issue for more than eight years," said NCGA President Garry Niemeyer, a corn farmer from Auburn, Ill. "We are pleased to hear our farmers will no longer be facing the continued widening gap between the loss for corn and the premiums charged to growers for policy coverage. This is a day long coming."

Other industry sources expressed concerns about the lack of transparency, the uncertainty over the process and the rate increases that some growers could face.

Tom Zacharias, President of National Crop Insurance Services, says this decision, which RMA plans to initally phase in just two days from now, introduces a "great deal of uncertainty."

"We don't know exactly what the final rates are going to be and how the impacts will permeate throughout the system. This decision was late in the game for the magnitude of the changes," Zacharias explained.

"It's important that we deliver the program effectively. Let's make sure we know that with some degree of certainty and we are comfortable with the process that's going to be implemented," Zacharias added. "Farmers need to be charged the right rate. Theres no equivocation on that. But with the new system, how well do you know what's right – based on the information available?"

Former USDA Chief Economist and Federal Crop Insurance Corporation Board Chairman Keith Collins, who now serves as a NCIS consultant, questioned the process and the fact that RMA has not yet provided responses to a number of industry concerns.

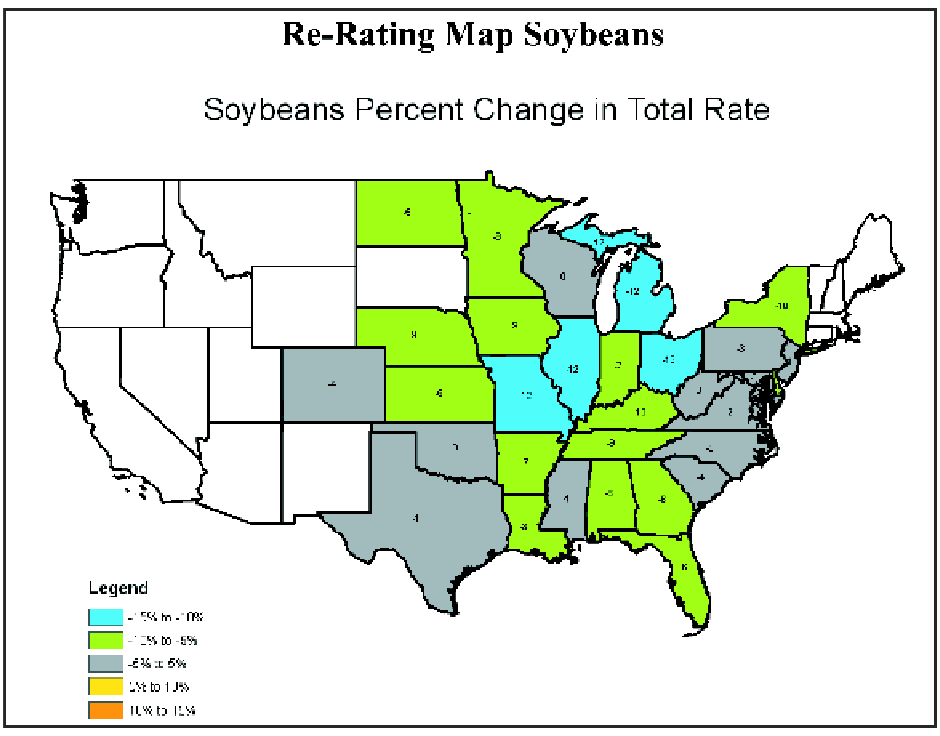
"Should you be proceeding to implement a system that has not been fully evaluated and the substance of the criticism has not been fully addressed?" Collins asked. "It's clear RMA has some questions, as well, and that's why they are doing a phase-in."

RMA said updated data pertaining to prevented planting, replant payment, and quality adjustment loss experience was also used in determining rates changes – raising additional questions about how those changes will also impact growers.

"Most growers will probably be overjoyed that they will see their crop insurance premiums decrease," observed a Washington-based insider who follows the industry. "But when you look at the map, you also see states like North Dakota with an average increase of 7 percent for corn and Mississippi with an average increase of four percent for soybeans. I'd hate to be the crop insurance agent who has to explain those types of increases."

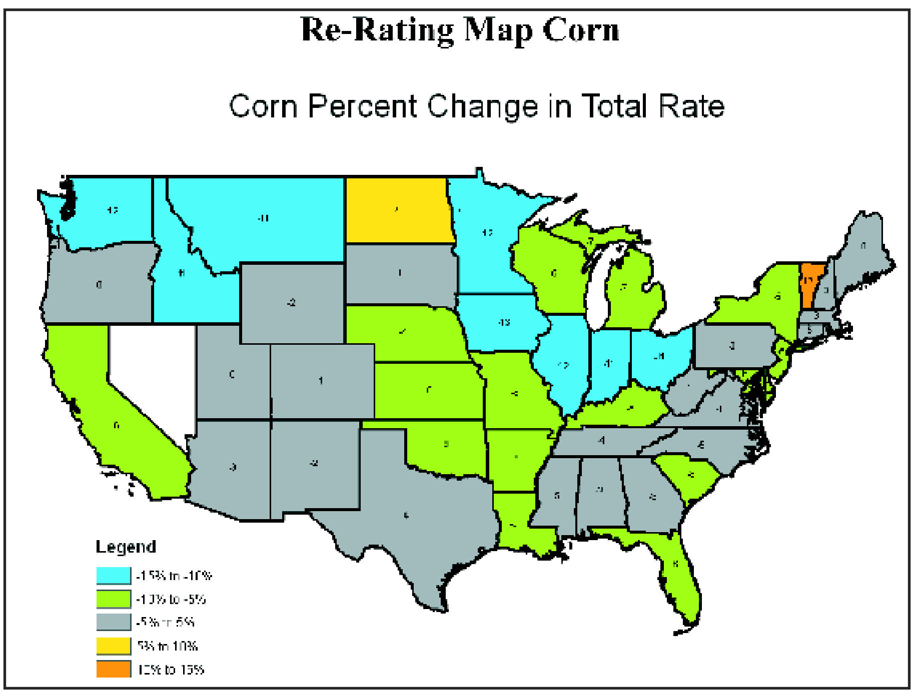
RMA will release actuarial documents by November 30, reflecting premium rates and other program information that will be effective for the 2012 spring crop season. Growers are advised to visit with their crop insurance agents for more details. Δ

SARA WYANT: Publisher of Agri-Pulse, a weekly e-newsletter covering farm and rural policy. To contact her, go to: http://www.agri-pulse.com/



Re-Rating Map Soybeans

Soybeans Percent Change in Total Rate



Re-Rating Map Corn

Corn Percent Change in Total Rate