RMA's Bill Murphy Looks Ahead At The Future Of Crop Insurance

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Budget cutters will be looking to trim almost every federal program next year and the federal crop insurance program will be no exception. But the head of USDA's Risk Management Agency (RMA) says he is ready to spread the word that the crop insurance industry already took a $6 billion cut, with $4 billion of that going to deficit reduction.

"Six billion is quite a savings. As we get talks going into the 2012 Farm Bill, I definitely want to make that known when we get into the discussions," Murphy told Agri-Pulse in a recent interview.

RMA released a report Tuesday that indicates current investments in crop insurance are delivering significant bang for the buck. While the cost of the federal crop insurance program has increased by about 23 percent from fiscal year 2001 to 2007, the level of insurance protection almost doubled, from $36.73 billion to $67.34 billion over the same period.

Insurance coverage is now available for almost every commodity and specialty crop, from apiculture to wheat, as well as livestock operations.

In addition to implementing a new Standard Reinsurance Agreement with companies, the RMA staff has been focused on rolling out a new Common Crop Insurance "Combo" policy for 2011 that combines existing Crop Revenue Coverage (CRC), Revenue Assurance (RA) and Income Protection (IP) for 2011 crops into one revenue program.Murphy says farmers are going to really appreciate the change.

"What we've found, especially in the Midwest where you would have three options, is that farmers would take their pencil and they'd wait until the last minute and pick what they thought would be a good program and of course you never know what will end up being the best program. It took up a lot of their time and certainly a lot of the agents' time, trying to answer and explain the differences between the programs. So all around, it's a big improvement. Anything that simplifies the program from the farmers' standpoint is also a positive.

Despite concerns that the new combo policies would end up costing some growers more in 2011, Murphy says that those should be the exception rather than the rule. "Generally, costs are going to be decreased. Not a lot, but a few percentage points."

Growers have increasingly switched to purchasing enterprise units and that option will be available in any county where the new Combo revenue programs will be available.

"I think that's going to be an advantage to quite a few growers who haven't switched to revenue (programs) already," says Murphy. "It's also going to help in the South where the enterprise units have been extremely popular."

Regional differences

Despite the growth in crop insurance coverage over the last decade, growers in several regions of the country still complain that the program does not have enough historical production and loss data to accurately determine rates. Murphy says RMA is doing a review of rice, cotton, sugar cane and other crops to see if additional adjustments can be made. For example, RMA looked at the rate structure in the rice program and plans to drop premium costs, perhaps as much as 10 percent.

"Cotton growers tell us more acreage is now irrigated than historically, so we're doing a review to see what type of irrigation they're using. That could impact something we might be able to do for them down the road."

RMA staff also looked at the rating methodology used to insure the nation's corn crop, which the National Corn Growers Association wants the agency to update. But Murphy does not think major changes are warranted.

"I think the new contractors addressed everything in depth. One thing they did say is that we need to take a look at those severe losses in 1980's and in 1993. When you have three years that are such an anomaly when you look at the whole data set, should you weight those the same as every other year?" That's still an open question.

Performance discounts?

Growers who have not historically filed a lot of claims may soon be elgible for a performance discount, similar to what auto insurance companies provide to drivers who don't have accidents. Murphy says RMA is still reviewing who will be covered and what years are factored in to the calculation. He hopes to roll those details out in a couple of weeks.

The agency has already been providing some premium discounts for growers who invest in yield enhancing biotechnology, but Murphy says his staff is doing an analysis of how they should handle biotech crops over the next couple of years. Once concern: with about 93 percent of the soybeans and 86 percent of the corn already employing biotech traits, perhaps the discount should be integrated into base premium rates and applied to all growers, rather than reserved as an option.

RMA is also taking a closer look at how they can insure new biomass crops, like camelina and switchgrass, as directed by the 2008 Farm Bill. But it may be at least two years before anything is available.

The Pasture Rangeland and Forage program model will probably be the basis for insuring energy crops, because there is little production history and not much pricing information, explains Murphy. "That's a problem in insurance where past experience gives you the basis to do new projections in the future."

Longer-term, RMA is trying to figure out how advancements in machinery technology, such as Global Positioning Systems and yield monitors, can be incorporated into the crop insurance program and perhaps even used to collect data for the Farm Service Agency.

For example, Murphy says: "Wheat growers have requested separate units for continuous crop and summer fallow practices and we have been reluctant to make this change due to potential vulnerabilities with yield switching. If we had the GPS data, then we would know which day it was harvested and where it was harvested and hopefully we could make some improvements to the program with some of these technologies." Δ

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