

Revised Premium Ratings for Corn and Soybeans

Why are changes applied to corn and soybeans first and which crops are next?

These crops are a significant part of the Federal crop insurance program and thus impact many producers. In addition, these crops have robust and long periods of data that are useful for analytical purposes. Assuring appropriate premium rates for these crops impacts important program performance and program costs.

The next crops to be considered for the 2013 crop year are wheat and cotton, with rice, sorghum, potatoes, and apples. As part of its rating cycle, RMA will continue to update other crops based on similar rating methodology for the 2014 and beyond crop years. RMA spreads workload to match available resources so that each year it is continually reviewing and updating premium rates.

Why didn't RMA seek public input and increased transparency before making this announcement?

Crop insurance premium rate setting has never been subjected to public comment because setting insurance premiums is based upon sound application of recognized actuarial methodology and statistical analysis, along with professional judgment, not outside influences. RMA has followed the process it believes is most likely to lead to premium rates that are actuarially sound. Consistent with historical practices, RMA used noted economists, actuaries and other professionals with knowledge and experience in the crop insurance program to assist with the review and analysis. In addition, RMA professional staff simultaneously conducted extensive analysis on the proposed changes, considering the potential impacts upon other crops, the industry as a whole, and in the end, what represents the best estimate of a rate for

anticipated future losses. Based upon the original suggestions of Sumaria, Inc., the comments received by the reviewers, and the professional judgment of RMA staff professionals, we believe proceeding with partial modifications is the best way to proceed.

Crop insurance premium rates impact everyone involved in the crop insurance program including farmers, taxpayers, and crop insurance companies through compensation for delivery costs and underwriting gains and losses. For program integrity reasons, premium rate making cannot be negotiated or subjected to any considerations beyond what methods will lead to setting premiums in the most actuarially sound manner. RMA staff members follow pre-approved methodologies and statistical analysis, as well as our professional judgment to establish the most fair and equitable premium rate to charge producers within their locale.

What is the expected impact on crop insurance agents?

The SRA is a contract between the Federal Crop Insurance Corporation (FCIC) and insurance companies who choose to participate in the Federal crop insurance program. Insurance companies contract with agents to sell and service Federal crop insurance. FCIC does not contract with agents and does not regulate the compensation contracts between insurance companies and agents, except where limitations on agent compensation are set forth in the SRA. Therefore, any compensation contract is solely negotiated between the agent and the insurance company. To the extent that premium rates decrease, it will be an opportunity for agents and their growers to consider higher levels of coverage as they become more affordable.

What is the expected impact on crop insurance companies?

The Administrative and Operating (A&O) payments made to approved insurance providers are capped under the Standard Reinsurance Agreement (SRA) and are expected to be capped or near the cap for the foreseeable future due to high commodity prices. This means that any reduction in premium will likely have little effect on the A&O payments. The underwriting gains earned by companies may see some decrease due to fewer premium dollars collected. However, RMA believes that

to the extent historical experience is adjusted to reflect changes within the program and adjusted premium rates are reflective of future anticipated losses, that the targeted rate of return for underwriting gains will still approximate 14 percent of retained premium that was intended under the current SRA.

What is the impact to taxpayers and program expenditures?

Although it varies by state ([maps](#) | [tables](#)), the rate adjustments result in an overall rate decrease of around 7 percent for corn and 9 percent for soybeans. The amount of premium collected is expected to decrease by similar amounts – assuming that producers do not increase their coverage in response to the lower cost of insurance. If growers buy higher levels of coverage or move to a different plan of insurance like revenue coverage that provides more comprehensive protection, then the decrease in premium may be less.

To the extent that the overall premium decreases, then taxpayer contributions to program subsidies also go down. However, in some areas premium rates can and will go up, generally reflecting the loss experience incurred by producers for the county. These can be attributed to yield losses, quality losses, replant payments, or prevented planting claims.

How has the loss ratio changed since the beginning of the current program in the 1990's?

The loss experience ([chart](#) | [table](#)) has improved significantly in the crop insurance program since 1994. Participation in the program, especially in major row crops, has grown substantially to nearly 200 million acres ([chart](#) | [table](#)), resulting in a significantly different pool of insured growers today than in the period prior to 1994.

Continual program improvements by RMA and technological advances in farming have rendered today's program much different than that of the 70's and 80's. The program's average loss ratio is 0.84 since 1994, yet prior to that time the average is 1.43 with rarely a year below 1.0.

Why is a "phased in " approach being used?

RMA is making a concerted effort to adjust premium rates in a manner that recognizes the differences in today's program and the fact that the program loss ratio is consistently less than 1.0, especially for corn and soybeans. RMA is implementing adjustments to premium rates but doing so in a limited or "phased in" approach which allows for further review and consideration of any potential issues raised by peer reviewers prior to making further adjustments. This allows the program to continue moving forward in a direction that recognizes the study's outcome, direction, and recommendations, but limits the magnitude of changes pending further analysis. In addition to the study's recommendations, premium rate adjustments were made to reflect updated data pertaining to prevented planting, replant payments, and quality adjustment loss experience. In general, many geographical areas, but not all, will see premium rate reductions for corn and soybeans in the upcoming 2012 spring crop season.

Why is RMA examining premium rates and the process for determining them?

RMA contracted for a study by Sumaria Systems Inc., a company with well-respected actuaries and economists, to examine rates and RMA's rating process. The study is part of RMA's ongoing effort to improve the methodology of determining appropriate and actuarially sound premium rates for crop insurance. By law, RMA must operate the Federal crop insurance program in an actuarially sound manner. One measure of actuarial soundness is the loss ratio of total premiums to total indemnities (claim payments) paid out each year. The law requires an expected program-wide loss ratio of no more than 1.0, meaning that the amount of premiums at least equal indemnities. Periodically reviewing premium rates is consistent with sound actuarial principles to assure the best estimate of premium dollars needed to pay future anticipated losses. The goal is to strive to establish the best rate for the risk of each individual producer so each is paying their fair and equitable share as part of the Federal crop insurance program.

Why is RMA moving forward with a partial implementation instead of waiting until next year and addressing reviewers' concerns?

RMA has generally accepted the recommendations from the study and believes taking action to move premium rates in the general direction of the study is prudent at this time. While some concerns were raised by peer reviewers, those concerns generally relate to potential refinements for consideration. Most peer reviewers were in general agreement with the direction and outcome of the study's recommendations. One of the actuarial reviewers suggested phasing in any premium rate adjustments, which the authors of the study have agreed is reasonable. This is also consistent with the Act requiring RMA to periodically review and adjust premium rates in a manner that maximizes participation, ensures equity for producers, and sets rates appropriate to cover anticipated losses and a reasonable reserve.

What were the major concerns that reviewers had with the Sumaria recommendations?

Most reviewers commented on the approach used to adjust rates to reflect the degree to which bad (or good) weather is disproportionately represented in the accumulated loss experience. While agreeing with the intent for such an adjustment, alternatives were offered for consideration.

There were also several comments on a proposed downward adjustment to the loss data accumulated in the earlier (pre-1995) years of the crop insurance program. This adjustment is based on a comparison of the loss performance of the program in the pre- and post-1995 time periods, accounting for differences in weather. While most reviewers agreed that this type of adjustment is justified given the obvious changes in the loss performance of the program over time, some suggested dividing the time periods differently, such as pre- and post-1999. A preliminary review by RMA has not found this to significantly change the outcome.

What are the next steps?

RMA will continue to conduct analytical work required to consider and address the issues raised or refinements suggested by peer reviewers. RMA plans to post the study, expert reviews, and the author's response on its website. In addition, RMA will

review comments and input the public may wish to provide.

While the exact timeframe needed to settle any issues/comments is difficult to predict at this time, it is expected to be completed in time to be implemented for the next (2013) crop year for corn, soybeans, and other crops such as cotton and rice whose premium rates share the same publication deadlines. The other rating variables will be updated as well.

Wheat has an earlier publication deadline than do the other crops identified above for the 2013 crop year. There is the potential that not all issues/comments will be addressed by then. If that is the case, then the same phased-in approach may be used for wheat as was used for corn and soybeans for 2012.

Depending on the conclusions for making any further rate changes, they may be phased in over more than one year as appropriate. For example, RMA is prohibited by law from increasing premium rates by more than 20 percent in given year. Corresponding limits on rate decreases may be considered as well.

The changes will continue to be implemented to other crops as they come due for their periodic rate reviews.

Charts and Tables:

[Loss Ratios and Net Insured Acres](#) | [table](#)

[Average Percent Change in Premium Rate by State](#) | [table](#)

Contact Information

For more information, please contact [RMA Public Affairs](#).