

Implications of the 2008 Farm Bill

Could Reduce Agent Commissions, But Create New Insurance Categories

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The Food, Conservation and Energy Act of 2008 (the Farm Bill) authorizes farm programs for the next five years. The Act's provisions encompass a range of issues, including commodity price supports, conservation, trade, bio-energy, rural development, crop insurance and commodity futures regulation. Title XII of the Act also has important implications for crop insurers and agents.

Title XII was introduced, at least in part, because of pressure to find cost savings that could be used to fund other provisions of the Act. Key provisions of the Act will result in direct taxpayer savings and mandate development of new insurance products and enhancements to existing products.

Multiple Peril Crop Insurance (MPCI) programs are administered by private insurance companies that are regulated by the Risk Management Agency (RMA) of the U.S. Department of Agriculture. These insurers are authorized to conduct MPCI sales and servicing through the Standard Reinsurance Agreement (SRA). To ensure the SRA's contractual stability, the Act extends the SRA for the next five years. RMA will only be allowed to renegotiate the SRA under extraordinary circumstances as outlined in the provision.

The private crop insurance industry has grown significantly in the past several years. Gross written premium grew to \$9.856 billion in 2008, driven by record commodity prices and farmers' increased participation and coverage.

The Act reduces the rate that insurers' administrative and operating (A&O) expenses are reimbursed by the RMA by 2.3 percent. A&O covers the administrative cost of the providing

crop insurance to farmers. Agents' commissions are a significant part of the expense. The reduction will result in the loss of about \$225 million in annual income for private crop insurers, which will put pressure on insurance company operating expenses. It could also result in reduced agent commissions, particularly in locations where underwriting profits are limited.

Another important provision of the Act is the introduction of the

Average Crop Revenue Election (ACRE) program, an alternative to the current price counter-cyclical program. The ACRE program is not an insurance policy; however, payments under this program are triggered if a state's realized revenue is less than the target revenue. To be eligible for an ACRE payment,

a farmer's actual revenue for a crop must be less than the farm's ACRE benchmark revenue for the crop. The ACRE program may be complementary to MPCI programs. Selection of the proper MPCI insurance program by the agent and farmers is key to the farmer's overall risk management program.

The Act introduces the implementation of the Supplemental Revenue Assistance Program (SURE), a whole farm disaster assistance program. If the whole farm actual revenue is less than the SURE guarantees, the farm receives a SURE payment equal to 60 percent of the difference. SURE requires a declared disaster in the farmer's county or contiguous county and mandates the farmer purchase MPCI or NAP (Noninsured Crop Disaster Assistance Program) policies for all crops. This program, like ACRE, is another farm management tool intended to work in conjunction with crop insurance. The biggest change is farmers must insure and sign up all crops, including minor crops such as hay that were previously uninsured.

The Act also mandates the FCIC to offer or improve coverage for organic crops, dedicated energy crops, aquaculture, poultry, beekeeper and nursery crops. Many of these crops or crop categories enjoy growing consumer demand, and expansion of coverage for them could benefit the insurance industry.

The Act has a new provision that prohibits farmers from setting up insurance agencies to collect commissions and payments on their own policies, except when less than 30 percent of commissions derive from their own policies, family policies or policies they otherwise control. This ensures the program will be administered by professional crop insurance agents.

MPCI insurance policies and rates are the same for all private crop insurers. Although the Federal Crop Insurance Act allowed insurers, with FCIC approval, to sell crop insurance at a reduced premium, that provision has been eliminated. This change offers protection for insurance agents and allows companies to compete only on service and commissions to agents.

The Act also authorizes changes in government premium subsidy to farmers that will likely change the mix of business in insurers' portfolios. A reduction in the subsidy in the Group Risk Plan and an increase in the Enterprise Unit discount will cause a shift toward individual crop insurance products.

It's important to understand the changing crop farm management products. Their implication won't be known until later in 2009, as the Act is fully implemented. ■



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