The Farm Bill and Western Agriculture

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Expanding Roll of Risk Management

Historical Perspective

- When was Crop insurance first introduced?
  - 1938 in response to Dust Bowl and Great Depression
  - Terminated in 1943
  - Reauthorized in 1945, but experimental in nature
- Advent of Modern Federal Crop Insurance
  - Came into being in major way in 1980 when premium subsidy was authorized
  - 1996 Risk Management Agency formed to oversee and Regulate federal crop insurance program

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Crop Program Today

- Crop Insurance is delivered through 17 Approved Insurance Providers (AIPs) who retain some of the risk
  - Farmers interact with Insurance Agents who sell and service the policyholders

- RMA is responsible for rates, regulations, oversight, compliance and reinsurance; AIPs may purchase their own reinsurance as well for the risk they retain

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Crop Program Today

- Policy terms and conditions, premium rates and insurance prices, and procedures and regulations are the same across all AIPs
  - This level of uniformity makes it easier for the farmer to understand crop insurance products

- Underwriting gains, commissions and other financial considerations are contained in the standard reinsurance agreement (SRA) between AIPs and the Federal Crop Insurance Corporation (FCIC)

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Crop Program Today

- Cost of insurance varies, based on premium rates to ensure actuarial soundness (High loss years are offset by the collection of premiums during low loss years) and elected options by the insured. The higher the liability, the higher the premium.
  - The underwriting objective is to have total premium paid equal the indemnity payments paid

- Affordable insurance has been facilitated by subsidizing premiums to increases participation

- Certain other expenses are also paid by the Federal Government
  - Cost of product development
  - Cost of product maintenance
  - Cost of AIP production and loss adjustment

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Resulting Benefit to the Farmer

- Crop insurance is essential to farmers to provide that safety net to allow for innovation and manage risk of adapting during times of historic droughts and floods.

- Crop insurance truly benefits the small and beginning farmers because it minimizes risk in an affordable way.

- This safety net provides coverage for their losses in the event of a major loss.

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What is Benefit in California

- Coverage provided for 56 crops and livestock
- Over 33,000 policies
- 4.6 million acres insured
- $5.4 billion in crop liability
- $260 million premiums
- $107 million paid in indemnities (cherries top recipient at $22 million)

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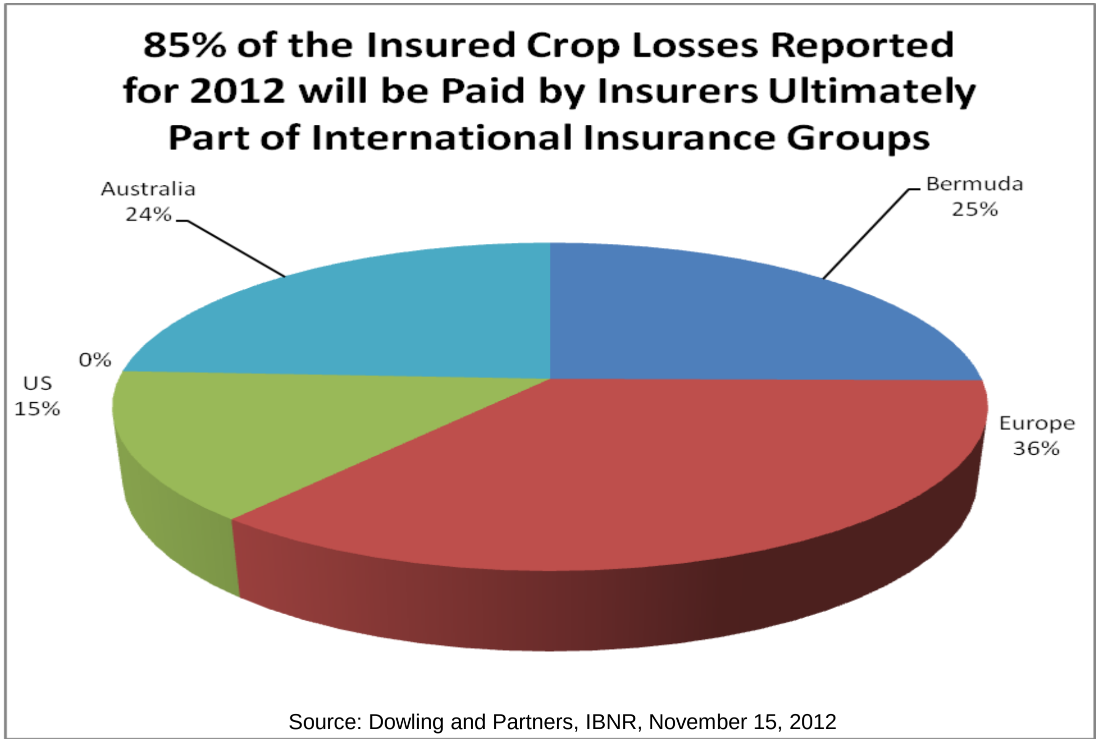
Diversification of Risk



Total Loss $1,465.2B: Bermuda $368.4M, Europe $526.6M, US $215.2 and Australia $355M.

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Future Perspective

- Crop insurance is being addressed in the Farm Bill discussions as the primary safety net for farmers and ranchers
    - Under discussion: linkage to conservation compliance provisions, new program development, premium subsidy rates and limits
- Continue to reduce program vulnerabilities and improve the products.
- The Federal crop insurance program will increase coverage options for organic producers this year and provide even more options in 2014
    - RMA continues to work with farmers and grower groups to examine market-based approaches to insuring specialty and organic crops.