

25 YEARS OF A PARTNERSHIP THAT WORKS

By Laurie Langstraat, NCIS

I've heard people ask, "Where were you when John F. Kennedy was shot?" Well, let me ask you a question. Where were you when President Jimmy Carter signed historic legislation that began the world of Multiple Peril Crop Insurance, as we know it today? I was 12 years old, living in a small town in South Dakota and oblivious to how that legislation would affect my life. There is probably only a handful of people currently working in the business that were around when the Federal Crop Insurance Act of 1980 became law. And some of them may have even helped create the partnership started that day between the private crop insurance companies and the United States Government.

Designed to phase out the free Federal farm disaster payment program, the Act enabled private insurers and agents to market All-Risk Crop Insurance beginning in 1981.

"The Administration at the time wanted to improve the crop insurance program," said Ray Fosse, former manager of the Crop-Hail Insurance Actuarial Association (CHIAA) and former manager of the Federal Crop Insurance Corporation (FCIC). "Their objective was good," he said. "I'm impressed with how the companies got involved with it."

Thirty-five companies signed a reinsurance agreement with FCIC for the 1981-1982 crop year.

Prior to 1980, the private crop insurance business was almost 100 percent based on the sales of crop-hail insurance. Sales of the government-based All-Risk Crop Insurance were \$156 million in premium and only protected about ten percent of the eligible acres. The private companies were intrigued by the Government policy and decided to try something of their own.

In the mid-1960s, companies began to expand crop insurance coverage utilizing a program referred to as the "Weather-Perils Policy," which was offered in Nebraska, Iowa and Illinois. This policy could only be obtained by endorsement to an existing hail



policy. Premium volume on this program was limited as companies cautiously developed underwriting guidelines for the new program. By 1974, most companies felt a basic understanding of the program and thought it would allow for the expansion of the program. The sales closing date was April 15. After underwriting inspections were made and the policies had been accepted, the following events took place in

Iowa alone:

- It stopped raining.
- Southwest Iowa experienced 10 days of hot, dry winds while corn was in the early tassel stage.
- A killing frost occurred in west central Iowa counties over the Labor Day weekend.
- Two weeks later a killing frost occurred in the north central Iowa counties.

The results for one company's policies in Iowa—375 policyholders reported claims and after final adjustments were completed the paid losses exceeded \$3.5 million, a loss ratio of over 700 percent! Nearly all companies experienced similar losses, not only in Iowa, but in Nebraska and Illinois as well. This program was totally INSURED and REINSURED by the private sector.

Needless to say, the program was abandoned with the exception of one or two companies that continued the program for another year with a repeat of the previous year's loss experience. There was no way for private crop insurers to continue this program alone.

A few individuals continued to dream and search for a way to revive All-Risk Crop Insurance coverage for delivery to the American farmer through the private sector. One possible way was through a partnership with FCIC and the private industry.

Gene Gantz, Risk Management Specialist with RMA, was a regional director for FCIC in the late 1970s when the first

inklings of program expansion and partnership were heard.

“Jim Deal (then Manager of FCIC) called me and said Bob Berglund (then Secretary of Agriculture) had some big plans for crop insurance. It sounded very exciting to me,” said Gantz.

Berglund felt the disaster programs were “a disaster for farmers” alluding to the 70-odd legislated programs for the relief of distressed agriculture. His solution for the “mess” was a new Federal crop insurance program, updating or possibly replacing the 1938 Act.

Some of the ideas for a new program were regarded as not only fiscally imprudent, but potentially financially harmful to the private hail insurance business. This situation energized Industry leadership to finally get serious about All-Risk Crop Insurance, to the point of considering influencing the legislative thrust.

Jim Deal came into his role as Manager of FCIC after the idea of the

public/private partnership was being developed.

“Our vision was to get the insurance companies more involved,” said Deal. “I testified that we ought to be able to get 65 percent participation without Federal disaster programs through this partnership. It’s far exceeded what we thought it could do,” said Deal.

Gantz agrees. “From 1980-2004, there’s about 75-85 percent of the acres insured,” he said. “Did the private sector sales delivery work? Outstanding! Is it working for taxpayers? You bet!” “There’s enough stability in agriculture for farmers to stay in business,” said Gantz.

Crop insurance IS working for farmers. During the last 25 years, the growth of crop insurance has helped keep thousands of farmers in business and protected the economic viability of rural communities. Farmers have shared their risks and invested in their own, individually tailored risk management program.

Taxpayers have helped make crop insurance affordable and there have been fewer large ad hoc disaster programs as a result of the spread of crop insurance.

The growth of this program didn’t occur overnight and it didn’t happen just by chance. It happened because 25 years ago, a group of people had a vision to serve every farmer in America and provide him with an opportunity to protect his investment. Today, you are part of that group too. Whether you are an agent, adjuster, or company employee, you are working hard to provide your customers with the best product available. With the ever-changing face of the crop insurance industry—whether you are looking at the policy language itself or the people directly involved in this business, the next 25 years will probably prove to be just as exciting as the first. Where will you be when the partnership celebrates its 50 year anniversary?! **TODAY**