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# Considerations 9 Through 12: Redux

*The final piece in a four-part series*

*The U.S. crop insurance program is a model for the integration of incentives in achieving a successful public-private partnership. Can the system be improved?*


This is the fourth and final piece in a series titled "Reconsidering the Considerations." Followers of TODAY® magazine should recall that the motivation for this series was to revisit earlier "Considerations"[1] of the crop insurance program that took place during the deliberations of the 2014 Farm Bill. In our last issue we addressed Considerations 5-8 which were: 5) Is the safety net income support or risk management? 6) Is current risk sharing optimal? 7)What is the role of area versus individual plans? And 8) Should the safety net be incentivized?

Now we head for home, in this final edition for 2021 we will discuss Considerations nine through twelve: 9) Can the current incentive structure be improved? 10) Is crop insurance distortionary? 11) Can crop insurance be used to achieve multiple policy objectives? and 12) Do crop insurance and ad hoc disaster assistance programs work together or are they mutually exclusive?

### 9. Can the current incentive structure be improved?

Perhaps the most fundamental characteristic of the modern-day crop insurance system is its underlying incentive structure. Essentially each level of the delivery system is incentivized. Starting with premium support, which keeps crop insurance affordable and incentivizes wide-scale participation, to public/private risk sharing, which deters fraud, waste and abuse and contributes to actuarial soundness. The U.S. crop insurance program is a model for the integration of incentives in achieving a successful public-private partnership. Can the system be improved? Of this, there is no doubt. At issue are the collective policy objectives to be achieved and the willingness and ability of both the public and private sector to achieve said objectives.

Over time, we have witnessed the successful expansion of crop insurance; its improved actuarial performance; increased risk-bearing on the part of the private sector; the improved efficiency of the program measured by the Improper Payment Rate, and the introduction of conservation initiatives through increased premium support for cover crops. All of this accomplished through the role of incentives. Going forward, it will be incumbent on policy makers and stakeholders alike to ensure that federal crop insurance remain incentive based and that further enhancements to the existing program continue to employ the use of incentives to achieve future policy objectives.

### 10. Is crop insurance distortionary?

Casual inspection of the literature still indicates that any acreage effects associated with publicly supported crop insurance are small with product price being the primary driver of acreage shifts.

Some recent efforts have attempted to "tease out" perceived distortions with highly complex

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[1] Zacharias, Thomas P. and Keith J. Collins, "Ten Considerations Regarding the Role of Crop Insurance in the Agricultural Safety Net." The piece was published in Choices Magazine, a publication of the AAEA.

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modeling approaches raise serious questions with respect to causality versus associative effects or correlation. Obviously, the incentive structure of crop insurance and the potential for distortionary effects are interrelated.

In any case, it is healthy to continue to examine the behavioral implications underlying crop insurance in order to better understand and improve upon the incentive structure of the program going forward.

**11. Can crop insurance be used to achieve multiple policy objectives?**

This question was not one of the original "Ten Considerations." The notion of achieving multiple policy objectives through the federal crop insurance program has surfaced in large part due the program's wide-scale participation, its efficiency, and the role that incentives have played in the unqualified success of the program. Upon a bit of reflection, the question could be framed alternatively as "can crop insurance help support multiple policy objectives?" Yes, of course, and both RMA and the industry have responded to the challenge. In the early days of the transition of the new Administration, three priorities were made clear: 1) continued response to the Covid-19 pandemic; 2) climate initiatives; and 3) issues of racial equity and inclusion.

Beginning with the pandemic starting in March of 2020, both RMA and the AIPs have worked tirelessly in order that farmers and the delivery system were provided the flexibilities needed to ensure that crop insurance was made available safely and with as little disruption as possible. With respect to climate initiatives, the most obvious examples are the cover crop premium support programs. For the last several years, the states of Illinois, Iowa, and more recently Indiana, offer farmers a premium discount if they plant cover crops. Earlier this year, the USDA/Risk Management Agency announced the implementation of the Pandemic Cover Crop Program (PCCP) to provide crop insurance premium support to farmers who insured their spring crop and planted a qualifying cover crop during the 2021 crop year. Lastly, regarding issues of racial equity and inclusion, the AIPs, through their support of NCIS outreach activities, have been engaged in risk management education and outreach activities for underserved farmers for more than two decades. NCIS also has supported more than 30 1890 university students through scholarships and most recently, a summer internship program.

In the pursuit and support of multiple policy objectives, the challenge will be that of determining priorities while maintaining the primary focus on the essential mission of crop insurance—which is to provide risk management services to America's farmers and ranchers.

**12. Do crop insurance and ad hoc disaster assistance programs work together or are they mutually exclusive?**

In the days following the 2012 drought—the worst disaster to befall U.S. agriculture since the Dust Bowl era—crop insurance was celebrated by policymakers for its effectiveness. Assistance was delivered quickly thanks to private-sector efficiency, and taxpayer expense was offset with investments from farmers and insurers. The fact that there were no calls for ad hoc disaster aid despite the more than $17 billion in losses suffered was a testament to crop insurance's popularity throughout the Midwest.

However, our recent past has demonstrated that additional disaster assistance is both an economic and political reality, most specifically in situations where the damage extends beyond insurable crops and wipes out equipment and structures essential to farming. In these situations, it may be prudent for lawmakers to supplement insurance with disaster aid, as they have in recent years. That does not mean insurance was ineffective, it just means farmers needed additional help to overcome Mother Nature's wrath. That said, lawmakers typically want to minimize these occurrences, recognizing the speed, accuracy, and cost effectiveness in which crop insurance performs. That is why buying insurance coverage in the future is usually a prerequisite for farmers receiving ad hoc aid. At issue for the industry is not a binary choice between crop insurance and disaster aid. That choice will be made in the political space. At issue is what do we learn from catastrophic weather and market events that help us continue to improve crop insurance in the future.

**Consideration 13 (Why not make it a Baker's Dozen?)**

As we reflect over the past year and the continuing pandemic, it is worth "considering" how much has been lost and sacrificed and how much has been learned. Losses and sacrifices have been both tragic and disproportionate. At the same time, much has been learned that can benefit all of us as we navigate the future. As we consider the New Year let us resolve to take the lessons learned in the past two years and build upon them.

## In This Issue

In this issue we welcome the new RMA Administrator, Marcia Bunger and introduce her priorities to you in our first article. We look forward to working with Administrator Bunger and the rest of the RMA staff as we move into the new year.

The pandemic thwarted some of the association activities in 2020 but we were determined to find a way to present adjuster education sessions in 2021. And through the help of many people from the AIPs, staff was able to do just that. The virtual loss adjuster schools were a huge success, and you can read all about them starting on page 8. We are hopeful that the schools will be back to "normal" in 2022, but we are confident that we can provide valuable education in a virtual environment if we need to do so again.

There are several great training and informational resources in this issue. The popular Crop Plan Comparison chart is included, along with a new Livestock Plan Comparison chart that provides information about these programs that are growing in popularity.

Once again, NCIS has named five students to receive a scholarship for the next four semesters of college. These students all attend an 1890 University and are studying an agricultural discipline. You can learn more about these individuals in the article starting on page 14.

And lastly, we introduce you to Dustin Johnson, a farmer in eastern Iowa who works very hard to provide for his family, protect the land he farms, and uses crop insurance to ensure he can continue his family legacy for many years to come.

We hope that you enjoy all of the features in the magazine and wish you all the best in 2022!