In the Field

MAY 2014

EASTERN REGION

Pondering What's Next With the Farm Bill

By Michael Connealy, President & CEO

The farm bill—with positive crop insurance provisions—finally passed early this year, which is the best news we could hope for after a long and contentious battle. This leads to the often-asked question, "What's next?"

What's next for crop insurance includes two brand-new programs, SCO and STAX. The supplemental coverage option (SCO) is for several crops (corn, wheat, soybeans, et al), not including upland cotton. The stacked income protection program (STAX) is similar to SCO but it applies only to upland cotton.

Both programs are "shallow loss" programs, meaning that they cover only a narrow band of coverage, and that the levels generally will be slightly above the top of the basic MPCI coverage. SCO, for instance, is designed to kick in once a 14% loss on a commodity has occurred in the county.

The Risk Management Agency (RMA) is working slowly to prepare these products for the 2015 sales season. Both will have a premium payment due from the buyer and each will have a decent premium subsidy. Until the actual rules and regulations are published, it will be difficult to know exactly "what's next," but we have a general idea.

SCO will be competing with a Farm Service Agency (FSA)-administered risk management tool known as Agriculture Risk Coverage (ARC). ARC will be similar in coverage to SCO, but with no premium payment required. The details of ARC are slowly coming together in a fashion similar to SCO. We know there will be a county option (ARCC) and an individual option (ARCI). We also know that if a producer opts for ARC, they cannot take SCO and are not eligible for another FSA-administered program known as Price Loss Coverage (PLC). We also know that once they select ARC, it will be in effect for the duration of this farm bill (2015-2018).

The wheels turn slowly

At the outset there may be confusion for agents, FSA offices, and certainly at the farmer level. ProAg® is working in conjunction with National Crop Insurance Services (NCIS) to help manage these products to a successful launch in 2015—although we may see delays on the rollout into 2016. We need to be patient and allow the wheels of the USDA, even if slow, to get the programs ready to go. (See 'Putting Wheels on the Farm Bill' story inside.)

Don't be surprised if the products underwhelm farmers once they are out. It is possible that reactions of apathy and confusion will run neck and neck. During the debate on the farm bill, the crop insurance industry more or less was mute on our opinion of these products. They were developed either by politicians or growers groups, and designed to save a material part of the baseline budget in the farm bill being given up via the loss of direct payments. $6 billion a year was dropped on direct payments and $3.2 billion or so came back via PLC, ARC, SCO, and STAX. This keeps the FSA in business and keeps the Farm Bill budget baseline from deteriorating further.

We have two competing shallow loss programs (SCO delivered by the crop insurance agent and ARC handled by the FSA office) that farmers may sign up for, but many, if not most, don't really need either one. Perhaps in anticipation of this potential apathy, the farm bill includes a provision that if the farmer does nothing, they are automatically assigned PLC as their FSA-delivered option. This apparently leaves open the annual option to sign up for SCO or not. The fact is, a

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The Past, Present and Future of Agricultural Risk Management®

Putting Wheels on the Farm Bill

By Terri Sell, ProAg Senior Vice President of Operations

Even before the long-awaited farm bill was signed into law, ProAg® was already working to determine how the many provisions would be implemented—and what that implementation would mean to the industry and to our agents and insureds.

The NCIS board of directors quickly understood how big and complex the task of implementation would be for the industry and RMA. They created an Underwriting and Operations (U&O) Committee, whose mission is to focus on program and operational issues in the areas of policy issuance and underwriting, accounting, business, and operations. The committee will examine these issues prior to them reaching the TIP Committee, which is focused on IT concerns.

I am the ProAg representative to the U&O Committee. Our primary mission is to work with the RMA to begin implementation of the farm bill and to make the process as smooth as possible. The following paragraphs provide a high-level overview of where we are in this process today and what you can expect to see in the near future.

First steps

The RMA's main priorities for 2015 are the implementation of STAX, SCO, and Whole Farm (which replaces AGR and AGR lite). The first thing on our plate as a committee is to get the provisions and underwriting guidelines for STAX and SCO approved by RMA. We sent our final set of comments back to the RMA in mid-April. We hope to be able to release those guidelines to the agents around the middle of June, dependent on RMA's release.

We will then begin to work on our internal training schedule for these new programs, so we're ready to go with agent training in July.

There are many other changes in the farm bill. About half will be implemented in 2015 and half in 2016. Because this implementation requires basic provisions to be changed and federal guidelines to be rewritten, the timeline is a long one. In the meantime, interim rules will be issued and procedures written from those. Here are some of the topics in the interim rule.

Phase one, to be implemented in 2015, includes Crop Production on Native Sod, Beginning Farmer and Rancher, Conservation Compliance, Authority to Correct Errors, and Administrative Relief (Late Payment of Debt). It was clear from the feedback from committee members at our initial meeting with RMA that there will be a lot of work ahead of us before we can effectively implement these procedures. At this point, we only have draft procedures on Beginning Farmer and Rancher, and that is where we will begin our work.

More to come

On the docket for phase two, to be implemented in 2016, are Enterprise Units for Irrigated/Non-Irrigated, Permanent Enterprise Unit Subsidy, Coverage Levels by Practice, and Adjustment to Actual Production History.

For those of us in the operations area, the farm bill implementation will be occupying a significant portion of our time for the next 18 months. As we see the process unfold, we'll be using a variety of communication methods on our website and through the ProAgPortal® intranet to keep you informed. Stay tuned.

Pondering What's Next *Continued from page 1*

properly sold and explained 80% or 85% revenue policy for a major crop is hard to beat in the customer's eyes.

STAX (upland cotton) is different. It is an insurance option and requires farmers to see their local crop insurance agent if they want the extra coverage. For 2014, the cotton growers actually receive a final "direct payment" as a transition to STAX for 2015. There is no PLC or ARC option for upland cotton—only STAX. Is there value in adding STAX to a properly sold revenue policy for upland cotton? Only time will tell.

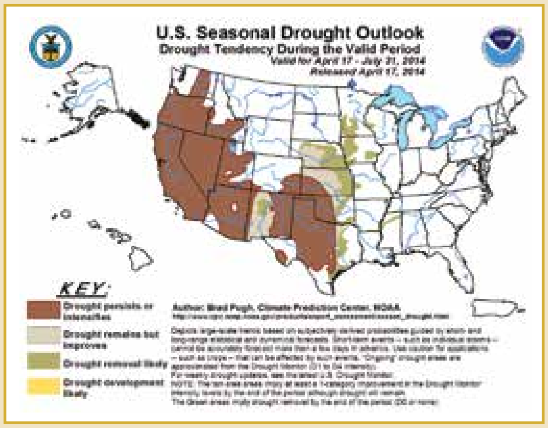
So, the answer to what's next is coming together slowly. It could be that the future includes a bit of extra work for the private sector delivery system (agents and companies), with limited revenue from this work, when all is said and done. More pressing for 2014, we have work to do in processing this year's MPCI business, and don't forget crop hail for those many customers who want it. Unlike ARC, SCO, PLC, and STAX, there is no federal government involvement with crop hail. This strikes me as a good thing, and probably can be used as a sales tool by agents this year. In my opinion, crop hail is a known commodity that has delivered visible benefits for more than 100 years.

Stay tuned to my blog on *ProAg.com* for more on the question of, "What's next?"

Outmaneuver Mother Nature With eWeatherRisk

Producers throughout the ProAg® network want to know what weather conditions may be in store for them. Not only do we work to keep you, as their agent, informed about the constantly changing weather picture, but we offer innovative insurance products that give farmers and ranchers better ways to manage the risk posed by weather extremes.

In the last few editions of WeatherManager Weekly, available on the home page of the ProAgPortal® intranet, we've discussed how the weather is shaping up for the upcoming season. Here's more information on both the drought situation and what to expect for temperatures this year.



Forecasts for summer 2014

Drought and the heat that comes with it are still major concerns. The spring drought outlook shows continued persistence for almost the entire central to western region through at least June 2014. What this means, in short, is that the drought will continue, though some areas might show slight improvement.

The current Drought Monitor shows a more detailed view of what is happening by state on a week-to-week basis. Over the last few weeks, the Drought Monitor has introduced extreme to severe drought in the central plains and even the west and central Corn Belt—an area that, unfortunately, tends to experience excess heat that reinforces drought.

The National Weather Service has been developing long-range forecasts for decades. Their temperature outlook for June, July, and August forecasts above-normal summer temperatures for much of the country, while equal chances exist for either normal or above normal conditions throughout a portion of the upper central plains.

Hedge the uncontrollable

With this outlook, many of your customers are acting early to minimize the risks of excess heat and drought. By looking at both heat and drought outlooks, you can develop a weather risk strategy to complement your customers' crop insurance coverage. That's what eWeatherRisk® products are all about.

As with all weather hedges, growers can purchase these ahead of time and "lock in" their rate, term, and rainfall guarantees. With drought or heat risk coverage, they are locking in either the lack of rainfall or the amount of excess days of heat above a certain temperature. A heat contract may, in some cases, deliver a double benefit because when it is hot, it is generally also dry.

You can quickly build either a straight drought or an excessive heat hedge for your customer and demonstrate how affordable these solutions can be.

Anticipate the weather

The weekly ProAg WeatherManager has both long-range forecast trends and short- to medium-term forecasts that can be very beneficial as you aid your customers in their financial decision-making process. You can't see these forecasts on television or hear them on the radio, but you can find them on the Agent Portal at the ProAg WeatherManager or at *http://ewrweathermanager.com/ProAg.html*.

Every week we talk about the weather that is important to your customers' operations and offer ideas on how to hedge their weather risk. So, check the WeatherManager regularly to see the latest drought outlook and monitor short-, medium-, and long-term NOAA forecasts for your area.

How ProAg Claims Service Gets It Done

By Rob Young, National Claims Manager

How do we process claims in a way that sets ProAg® apart from the rest every year? It all begins with strategic planning. No matter what the year or the market impacts from unpredictable weather events, we understand that there is always the probability of having a catastrophic event somewhere. Traditionally, we estimate that nearly 60% of our policies will have a claim, and some more than one. Therefore, we can project that our plans for staffing and processes must be able to facilitate working through 35,000 to 40,000 claims annually.

The claims management team meets on a regular basis to develop a strategy for every year and every weather event. These important meetings lay the groundwork for our annual success. Once we have a good idea of the loss year we will be facing, then we can start developing our game plan. That puts us all on the same page, and execution of our plan then becomes the primary focus.

Where do we go from here? Jump over to *proag.com* and read the rest of the story. It will be easy to see what sets claims processing at ProAg apart from the rest of the industry.

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Livestock Risk Protection – A Useful Tool in an Upward Market

By Jeffrey VanLandingham, Regional Vice President - Eastern Region

The highest beef prices in almost three decades have arrived just before the start of grilling season, causing sticker shock for both consumers and restaurant owners—and relief isn't likely anytime soon.

A dwindling number of cattle and a growing export demand from countries such as China and Japan caused the average retail cost of fresh beef to climb to $5.28 a pound in February, up almost a quarter from January and the highest price since 1987.

"Everything that's produced is being consumed," said Kevin Good, an analyst at CattleFax, a Colorado-based information group. Prices will likely stay high for a couple of years as cattle producers start to rebuild their herds amid big questions about whether the Southwest and parts of the Midwest will see enough rain to replenish pastures.

Beef isn't the only meat with higher price tags. The price of pork also has climbed, largely due to a virus that has killed millions of young pigs. And composite retail prices for chicken in February were $1.95 per pound, the highest since October.

"I think these higher food prices are here to stay, including beef," said Dale Spencer, a rancher in central Nebraska and the former president of the Nebraska Cattle Association. "As we grow the herd, we'll have more supplies and prices should drop some at the market. I would not say a drastic drop."

Managing growing risk

Considering this trend, we are seeing renewed interest in livestock risk protection (LRP), a program that did not generate significant excitement during its release in 2008 as a subsidized, risk management tool. Additional interest has also been expressed from the loan and finance industry as they continue to seek dollar security for livestock loans due to the upward-moving market.

The LRP program's overall intent is to insure against declining market prices. Producers may select from a variety of coverage levels and insurance periods that match the time during which their livestock would normally be marketed. The program is widely available, easy to quote, provides subsidized premiums for producers, and allows an agent to service an additional component within a producer's agricultural and farming portfolio.

ProAg® remains committed to servicing the risk management needs of growers by providing training and testing requirements to qualified, licensed agents to market and sell this valuable program. With livestock pricing at record levels, this risk management tool may be worth a second look.

Please contact your ProAg marketing representative for guidance regarding our livestock products. Then let us provide the tools and training to exceed your expectations.