JANUARY 2012

In the Field

Taxing Year Reveals the Quality of Our People

By Mike Connealy, President & CEO

With the news media firmly focused on drought in the south and floods in the Plains and Midwest, we've heard the question asked, "Is ProAg okay? Can you handle these claims?" My simple answer is, absolutely.

Despite severe drought losses in Texas and Oklahoma, plus considerable flood losses in the Missouri River basin and the Mississippi River valley, it appears that the profitability of the industry will be at, or very near, the average profitability of the past 8-10 years. Those losses have been offset by slightly better-than-expected results in the majority of the Corn Belt and a good experience thus far in Florida, California, and the Pacific Northwest. The spread of risk has led to reasonable profitability for the industry.

That is not to say that all of the 15 AIPs will be equally impacted by the weather events of 2011. A regional carrier with most of their business in the Corn Belt could fare better than a national carrier, for example. While ProAg does have a significant book of business in Texas, we managed the risk between various options. So despite the gross losses being high, the underwriting results are acceptable.

Force in the field

This was the sort of year that brings our strength in the field into sharp focus. Our ability to put boots in the farmyard and to work claims is second to none, and that was evident in 2011. The high frequency of claims we experienced in Texas and North Dakota required a great deal of our loss adjustment people on the scene, and it was a test we feel we passed with flying colors.

There are relatively few variables that set one insurance provider apart from another in our business. The government sets the premium and commission levels, so price is not a differentiator. It all comes down to service, and to a farmer, the most important component of that service is the adjuster they deal with face to face. We fielded roughly 29,000 claims on approximately 52,000 policies during 2011. So 40-50 percent of our customers worked with an adjuster last year, and our goal is to leave the farmer feeling good about that encounter. We believe our claims adjusters in the field are a great strength of ProAg.

We also need to recognize our compliance department. As you would imagine, federal crop insurance requires a high degree of oversight by the AIP, particularly on larger claims in the $100,000-$500,000 range. We have hundreds of such high-dollar claims this year, and it is up to our compliance department to make sure that every 'i' is dotted and 't' crossed. You can have great work by the agent, the adjuster, and the underwriting office, but if compliance drops the ball, it all goes for naught. The ProAg compliance department did great work this past year.

From first contact to claim settlement, our professional staff sets ProAg apart. Our policyholders can be confident in our ability to service their claims while protecting the varied stakeholders, including agents, the federal government, and ultimately, the taxpayer.

PROAG

The Past, Present and Future of Agricultural Risk Management ®

News You Can Use

By Kendall Jones, Chief Operations Officer

Since you're reading this, that means you've noticed our newsletter. Now you may be asking, "Why did I get this and what's the purpose?"

You're receiving this publication because we value your partnership, and we're constantly searching for effective ways to improve the services we provide to you. One of our goals is to expand our partner communication program. This newsletter is one tool we're using in an effort to supply you with relevant and useful information about the dynamic, evolving industry in which we work.

We're experiencing big changes in our industry, and we want to offer resources to help you maintain and grow your business through those changes. This publication is created for you, and we value your feedback on what you've read—and what you would like to see in the future.

Thank you for your partnership. We look forward to hearing from you.

New Rating Methods Cause Concern

By Russ Klein, Chief Financial Officer

Recently, the National Corn Growers Association and American Soybean Association have been challenging the USDA regarding the premium rates used for corn and soybeans in the Midwest. That may have been a catalyst in the decision to engage a vendor, Sumaria Systems, to review RMA's rate-setting process on all crops, beginning with corn and soybeans.

From what we've been able to observe so far, the methodology recommended by Sumaria treats historical data differently than RMA has in the past, placing more weight on recent trends than on historical events. For example, there was a huge drought in 1988 and devastating flooding in 1993. We haven't had comparable events recently, but the insurance industry is convinced that we're not done with either drought or flooding.

The RMA would contend that new technologies and improved seed science will address those concerns, but the evidence just isn't there yet. Seed hasn't yet been developed that will grow when it doesn't rain for three months, as was the case in Texas this summer.

Midwestern target

Talk of Texas raises another potential issue with the new methodology. The initial research target is corn and soybeans, which will see a rate decrease across the board in every state. While this is somewhat speculative, I believe that if they applied the same methodology to cotton and wheat, which is popular in the South and Plains states, we would see pretty dramatic price increases.

As an industry, we were notified by the RMA about the new rating methodology this spring and really had no time to look at the system until very recently. After the industry did have that opportunity, they questioned whether the Sumaria system really followed proven actuarial techniques. If we had to file rates under this methodology for a privately issued product, I believe many states would challenge the approach.

What's the impact?

The RMA just published the new rates, and we're in the process of determining what the impact will be. It appears that the states that are going to see the biggest decrease in premiums—Iowa, Illinois, Indiana, Nebraska, and Minnesota—are also the same states that have seen the most dramatic decrease in profits as a result of the last SRA. Our concern is that these two waves of income cuts could create challenges for the industry in those states.

In summary, the industry position is that the new methodology isn't sound and the rate decreases aren't being applied evenly across all crops. The new system could negatively affect our ability to make strong profits in the good years so we have the surplus retained equity and capital to pay out claims in the bad years.

Tracking Key Changes for 2012

By Terri Sell, Senior Vice President, Operations

Over the past few years, our industry has seen a multitude of changes, and it appears that trend will continue as we move into 2012. I'd like to provide a high-level overview of the changes that will have the greatest impact on you in the immediate future.

First and foremost, in my mind are the billing date changes that will take effect in 2012. The 2008 Farm Bill mandated a change in crop policy billing dates from October 1 to August 15. The shift was made because many farmers were waiting until harvest—or until they had a claim—to pay their premium. The new date enables them to pay their insurance premiums out of their operating expenses. By changing when insurers get paid, the move also helps reduce the overall cost of the crop insurance program—a benefit to taxpayers.

We are going to be notifying our producers of this change between February and March, helping to reinforce the reminders they'll be getting from our agents.

Rating overhaul

RMA has engaged a private contractor to review their rating methodology. The contractor, Sumaria Systems, will eventually evaluate the process by which RMA establishes rates nationwide for all crops. But they'll be starting in 2012 with the big two—corn and soybeans. Their goal is to reduce premiums, which in turn, would encourage farmers to purchase higher coverage levels.

Ultimately, they believe reduced rates would help farmers with their overall risk management program while also benefiting the agency force. In 2013, they'll look at wheat, cotton, rice, potatoes, and sorghum. They're implementing the methodology in phases so they won't have to correct it for dozens of crops in the event they encounter problems.

ACRSI

The USDA wants to establish common reporting dates between FSA and RMA, and that desire has given rise to the Acreage Crop Reporting Streamlining Initiative (ACRSI). Before the initiative got underway, the RMA had 54 acreage reporting dates for 122 crops. The USDA wants to reduce that to 15 common dates between the two agencies.

This could yield to some positive benefits for AIPs. For example, in Illinois the acreage reporting date for RMA was July 15, but for FSA it was August 15. So farmers wanted to wait until August 15 when they certified with FSA to report their acreage to RMA, which would cause administrative issues for the AIPs. A common date would simplify administration.

The other initiative goal is to arrive at a system where farmers only report once, either through their AIP, at FSA, or directly on the RMA website. Workgroups are now putting the specs and modeling in place to ensure that all the data from this new system is distributed properly.

Production history changes

Last, but certainly not least, is the Trend Adjusted Actual Production History endorsement. This endorsement will be available in 14 states in 2012 and allows farmers to increase their APH yields and, consequently, their guarantees. We anticipate that this will be extremely popular in heavy corn and soybean production areas.

Testing the waters

Finally, I wanted to mention a few new pilot programs on tap for the coming year:

- In Montana and North Dakota, there is a program for camelina, an oilseed used in biofuel production.
- In California, a new program is available for olive growers. Olive acreage there is expected to increase by 7,000-10,000 acres per year through 2020.
- A new pilot is available to pistachio growers in California, Arizona, and New Mexico.
- The final two are revenue programs, one for popcorn and the other for specialty soybeans.

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Farm Bill Fog

By Bob Parkerson, Senior Vice President

Since the demise of the Super 12, as I like to refer to them, the leaders of the House and Senate ag committees, Rep. Lucas (R-KS) and Sen. Stabenow (D-MI), put together a farm bill in a matter of weeks. There's been considerable comment from members of those committees—including the minority leaders of the House and Senate—indicating that they don't know precisely what the bill contains.

Since the Super 12 did not achieve their goal of slicing $1.4 trillion from the budget, no one really knows what they put into the new bill. So while we have to give them some credit for putting something together, very few have seen the language yet. Until that happens, you can say the devil is in the details.

Until we get a better idea of what the bill contains, we really don't know how it will affect the SRA, companies, farmers, or agents.

Timetable emerging?

I will say that in recent conversations with individuals in Washington, they have indicated that they would like to basically start over in late January or early February. A lot of people have talked about using what has been put together as a starting point. I've also heard several say that they would like to have the Senate start this bill and the House pick it up, because the great diversity of opinions among the 48 members of the House committee would make that a tough place to start.

My sense is this is going to be a long, drawn-out, hard-fought farm bill. There is speculation this could go 12 months or longer before we get it done.

I do feel I can say one thing about the future of crop insurance and the farm bill. Virtually every commodity group and interested party in agriculture is promoting crop insurance as a key component of risk management and a nonnegotiable in the next farm bill. So crop insurance definitely has a future, though I won't be surprised if we see some changes that we never anticipated. Stay tuned.

Agent Update Meetings

Jan. 4: Fayetteville, NC, Doubletree Hotel, 8:30 a.m.–Noon

Jan. 5: Willmar, MN, Holiday Inn, 8:30 a.m.–Noon

Jan. 5: Williamston, NC, Hitchin' Post Restaurant, 8:30 a.m.–Noon

Jan. 10: Abilene, TX, Hilton Garden Inn, 8 a.m.–Noon

Jan. 11: Lubbock, TX, Overton Hotel, 8 a.m.–Noon

Jan. 12: Amarillo, TX, Amarillo College of Business, 8 a.m.–Noon

Jan. 17: Jonesboro, AR, Hilton Garden Inn, 9 a.m.–12:30 p.m.

Jan. 17: Colorado Springs, CO, Hilton Garden Inn, 8:30 a.m.–Noon

Jan. 17: Oklahoma City, OK, Wyndham Garden Inn, 8 a.m.–Noon

Jan. 19: Wichita, KS, Hilton Garden Inn, 8:30 a.m.–Noon

Jan. 20: Topeka, KS, Capital Plaza Hotel, 8:30 a.m.–Noon

Jan. 24: Phoenix, AZ, Holiday Inn Express, 8:30 a.m.–Noon

Feb. 1: Spokane, WA, Quality Inn, 8:30 a.m.–Noon

Feb. 2: Pasco, WA, Best Western, 8:30 a.m.–Noon

Feb. 7: Pocatello, ID, Clarion Inn, 8:30 a.m.–Noon

Feb. 9: Billings, MT, Crown Plaza, 8:30 a.m.–Noon

Feb. 10: Lenexa, KS, ProAg Regional Office, 9 a.m.–12:30 p.m.

Feb. 10: Great Falls, MT, Holiday Inn Express, 8:30 a.m.–Noon