

**Interview: Mike Adams (AgriTalk) and Tom Zacharias,
President, National Crop Insurance Services
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Adams: Crop insurance is becoming more and more important to producers across the country, more are getting into the program as there have been changes to allow more in. More coverage, more options for producers of various crops, but there are challenges certainly moving forward.

Let's take a look at the program, the way it is set up now, there have been some changes with the current Farm Bill, the latest Farm Bill, and there have been some good changes haven't there been?

Zacharias: We think this is a very positive Farm Bill for farmers and ranchers in the U.S. and for the crop insurance industry in general. Yeah, you have to say this is a very good Farm Bill for us.

Adams: But there are challenges looming. Certainly, I always say that there is a target on the back of the crop insurance program because a lot of folks see the amount of money going through this program and they are, and will even more in the future, I think, be going after the program. Do you agree with that?

Zacharias: I always hesitate to use the word target, I like to think that we have a little more enhanced scrutiny going on these days. The program has changed dramatically within the last 10 - 15 years and with that has come more attention, and in one sense, deservedly so. We are now covering about 294 million acres, premium this year is running about \$10 billion. That's a liability of \$110 billion of coverage for America's farmers and ranchers. This is a private/public partnership and on both sides of the equation, the companies involved have a fiduciary responsibility to their shareholders and with the public sector. We have a fiduciary responsibility to taxpayers, so yes, we should be paying attention to how the program is administered.

Adams: For the critics of the program, they focus on government outlay. They focus on how much money the Federal Government, taxpayers put in. It seems like that is their only focus, they don't look at the other side of that, as you mentioned, the public/private

partnership. What would you say to those who are critical of how much federal money goes into the program?

Zacharias: I think you have to look at this in aggregate. This is again, a public/private partnership and you have cost sharing in this program at different levels. Obviously, you have the federal taxpayers support. You have farmers who pick up a share of the premium in this. Farmers pay probably \$4 billion dollars a year in terms of premiums into the system. The private sector companies that are involved, these folks have staffs of loss adjusters, we have an agency force. These folks are putting their capital and labor into the process. There is sharing on several different levels, and I sometimes think that gets missed in these discussions. These companies, several of them, have been in the business for multiple decades. We have one company who is a family operation that has been in existence for over one hundred years, and then you have some newcomers in the program. So you have commitment of capital by the private sector to help manage the risk in U.S. agriculture.

Adams: You have expressed concerns about the role of private companies in this system and in this program, and whether or not they can remain viable in it, and how important it is for them to do so.

Zacharias: If you look over the last couple of years, we have faced some headwinds. Take the situation in 2012 with the extensive drought we had in the Midwest. Last year, when we had the swing in prices and a lot of other revenue policies kicked in, so there were indemnities paid there. The last couple of years have not met expectations for the private sector. That said, again, these companies are in business for the long run, so we are optimistic for 2014 to see how the returns come out. Companies have made long-term investments so they require long-term adequate return on their capital.

Adams: How concerned are you that these private companies will say it is not a good return for us and start pulling out of the program?

Zacharias: I think you have to pay attention to the signals we are seeing. Hopefully, again, in 2014 we have a bit of a turn around. It is important for the private sector to remain viable. If you look at where this Farm Bill has taken us, the availability for farmers to have different risk management options, affordability of that part of the program remains very much intact. We need both farmers and insurers to see reasonable returns in this business to help manage the risk.

Adams: As with any government program, there is always criticism about waste or abuse of the program. Do you feel that there is the oversight there should be? Are there are tools in place to minimize those kind of problems?

Zacharias: I think that this is an area that doesn't get much attention. Let me clarify that by saying, it doesn't get the attention it deserves in terms of awareness. Both the Risk Management Agency and the companies that are in this business have quality assurance programs. There is an active compliance function on the part of the Risk Management Agency. If you look back through this 10- 15 years ago, this was one of the first agencies to put in place data mining technologies. RMA sits down with the companies and these policies are reviewed quite intensively. Data mining rhythms used to detect anomalous behavior and make changes to the program and investigate where things "don't look right", when you examine these policies. There is an active compliance roll that both the companies and the agency are involved in. It doesn't necessarily see the light of day in certain publications or certain outlets. It is certainly an ongoing activity if you look at the review requirements that the companies and RMA conduct on an annual basis.

Adams: What changes do you think need to be made, or improvements that could be made that would help the program even more?

Zacharias: I think that this has always been an ongoing for us. I would say at this stage it becomes more incremental. If you look at the coverage, 290 million acres, in one sense is mature. There is not a lot of new acres that will be brought into the program so the question is improving availability within that, and improving the coverages. The Farm Bill does a lot for that. If you look at the SCO and STAX component of it, they complement individual coverage. The enhancements to APH and some other changes that are going on at the independent coverage level to improve the program. We are in, you hate to say post Farm Bill process, but these provisions will be implemented this year and next and we will learn from this process and continue to make refinements. The program has done that throughout its history.

Adams: Looking ahead to next year, what do producers, now here at the end of the year, need to be thinking about and what do they need to especially pay attention to going into next year?

Zacharias: I think it is safe to say that this Farm Bill has maximized choice for the farmer. With that choice, comes great responsibility. There are Title I provisions that the farmers needs to be aware of and there are crop insurance provisions that farmers need to be aware of. They will need to go out and seek the expertise of both the crop insurance agency force as well as those folks in extension and farm managers who are grinding through the Title I Component. If you look at the work that's done out of A&M, Missouri, Illinois, K-State, and Oklahoma State, those are the folks, and I probably left out a few, that are developing the decision aid tool, farmers need to sit down with those folks, and look at the set of decisions that need to be made for both Title I and crop insurance.