

# IN THE MIDST OF CHANGE: CHALLENGES AHEAD FOR THE CANADIAN AGRI-FOOD SECTOR

*Sixth Annual Canadian Agri-Food Policy Conference*

---

JANUARY 20-22 JANVIER 2016 | CHÂTEAU LAURIER | OTTAWA

---

*Sixième Conférence Annuelle sur les Politiques Agricoles Canadiennes*

# À LA CROISÉE DES CHEMINS: LES DÉFIS À VENIR POUR LE SECTEUR AGROALIMENTAIRE CANADIEN

[www.ag-innovation.usask.ca/2016policyconference.html](http://www.ag-innovation.usask.ca/2016policyconference.html)

# Reflections on Crop Insurance Public-Private Partnerships

Barry J. Barnett



**MISSISSIPPI STATE**  
UNIVERSITY™

# The U.S. Federal Crop Insurance Program

- Established as one of the “New Deal” programs during the Great Depression.
- Until 1980 it was a relatively small program administered entirely by federal employees.
- In 1980, the program changed to a public-private partnership.
- This change occurred when federal spending on crop insurance was small relative to federal spending on other farm programs.



# Public-Private Partnership

- Private-Sector Approved Insurance Providers (AIPs):
  - Conduct all sales and claims adjustment activities.
  - Must sell to any qualified applicant.
  - Share gains and losses with federal government through a reinsurance agreement.



# Current AIPs

**ACE American Insurance Company**

(Rain and Hail L.L.C.)

**American Agri-Business Insurance Company**

(ARMtech Insurance Services, Inc.)

**CGB Insurance Company**

(CGB Diversified Services)

**Everest Reinsurance Company**

(Heartland Crop Insurance, Inc.)

**Great American Insurance Company**

**NAU Country Insurance Company**

**Producers Agriculture Insurance Company**

(Pro Ag Management, Inc.)

**Technology Insurance Company, Inc.**

(AmTrust Agriculture Insurance Services)

**Agrinational Insurance Company, Inc.**

(ADM Crop Risk Services)

**American Agricultural Insurance Company**

(American Farm Bureau Insurance Services, Inc.)

**Country Mutual Insurance Company**

**Farmers Mutual Hail Insurance Company of Iowa**

**Hudson Insurance Company**

**Occidental Fire & Casualty Company of North**

**Carolina** (AgriLogic Insurance Services LLC)

**Rural Community Insurance Company**

(Rural Community Insurance Services)

**Westport Insurance Corporation**

(International Ag Insurance Solutions LLC)

**XL Reinsurance America, Inc.**  
(Global Ag Insurance Services, LLC)



# Public-Private Partnership

- Private-Sector Approved Insurance Providers (AIPs):
  - Conduct all sales and claims adjustment activities.
  - Must sell to any qualified applicant.
  - Share gains and losses with federal government through a reinsurance agreement.
- The Federal Government:
  - Subsidizes premiums.
  - Reimburses AIPs for administrative and operating costs.
  - Develops (or approves) policy language.
  - Establishes premium rates.
  - Provides reinsurance.



# Why?

- Elected policy-makers wanted to expand crop insurance usage to reduce political pressures for *ad hoc* disaster assistance.
- A public-private partnership:
  - Allowed for federal subsidization and control without a large increase in the number of federal employees;
  - Leveraged existing private-sector insurance delivery system; and
  - Provided federal reinsurance (in 1980 it was argued that the international reinsurance sector did not have sufficient capacity to absorb catastrophic crop insurance losses).



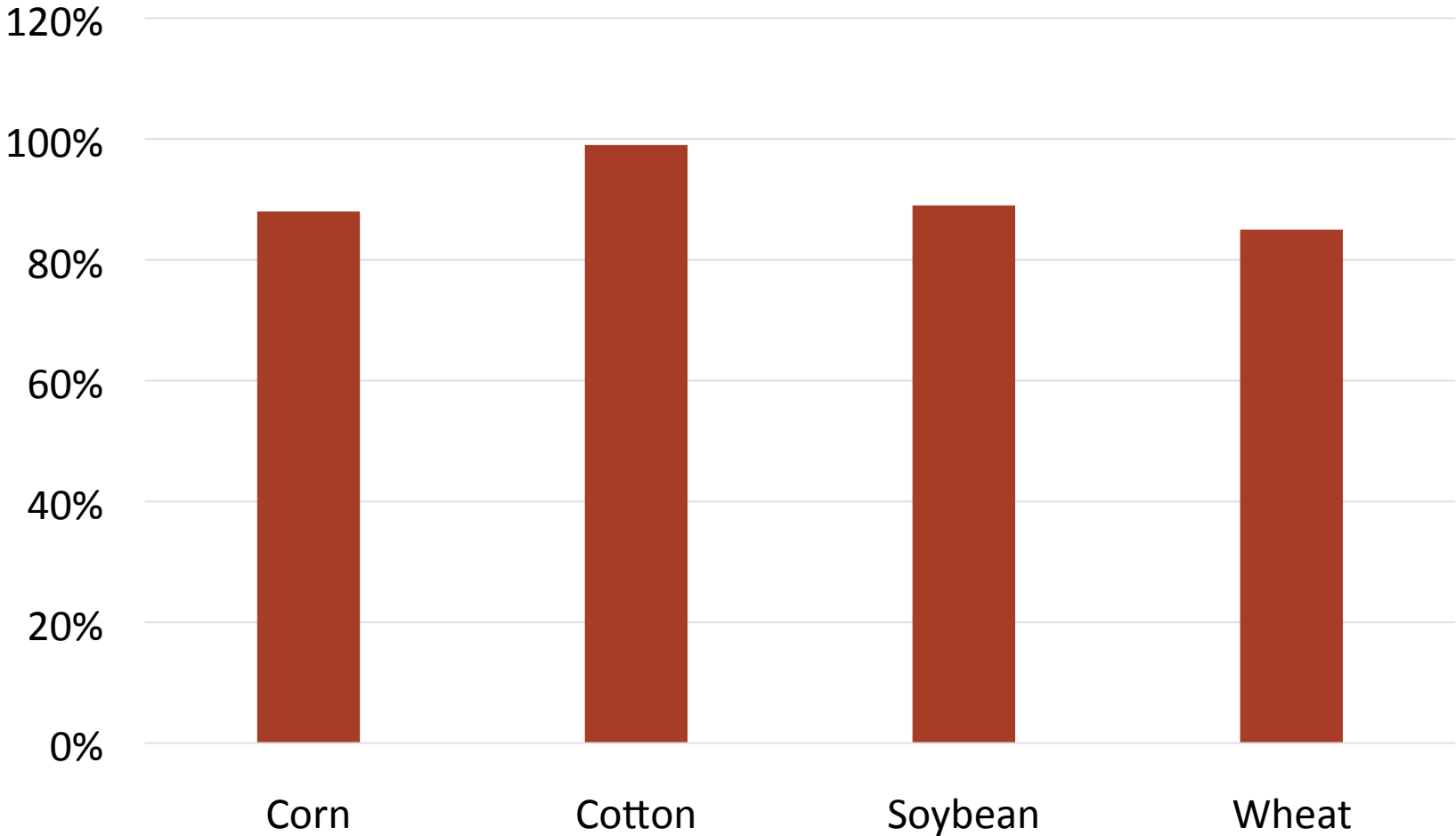
# Reflections on 35 Years

- Now have extremely high participation for major crops.





# 2015 Percentage of Planted Acres Insured



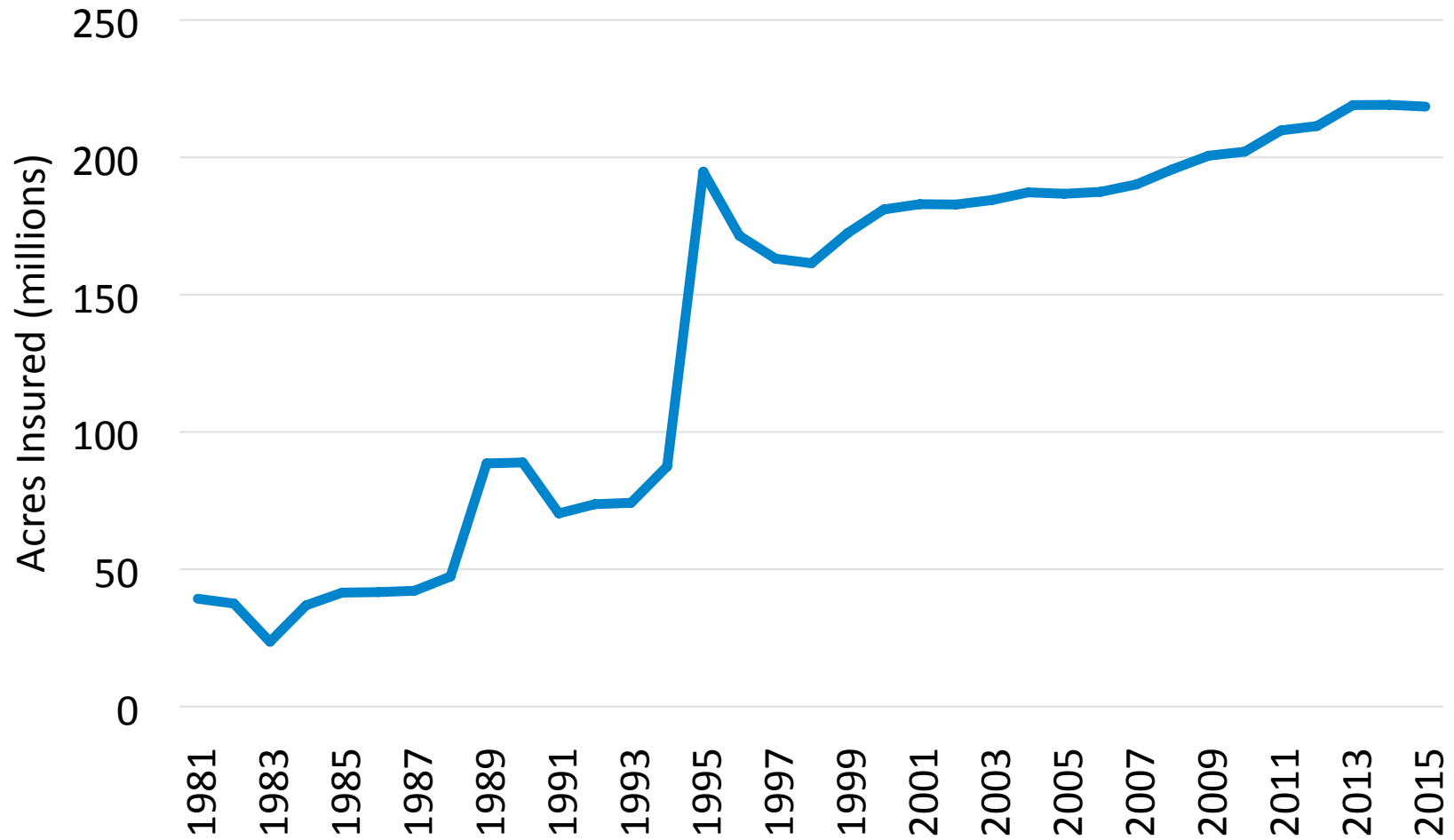
These 4 crops account for more than 70% of insured acres.



## Reflections on 35 Years

- Now have extremely high participation for major crops.
- No federal *ad hoc* disaster assistance since early 2000s.
- Tremendous increase in crop insurance uptake with very little increase (if any) in federal crop insurance personnel.

## Acres Insured (6 largest crops)

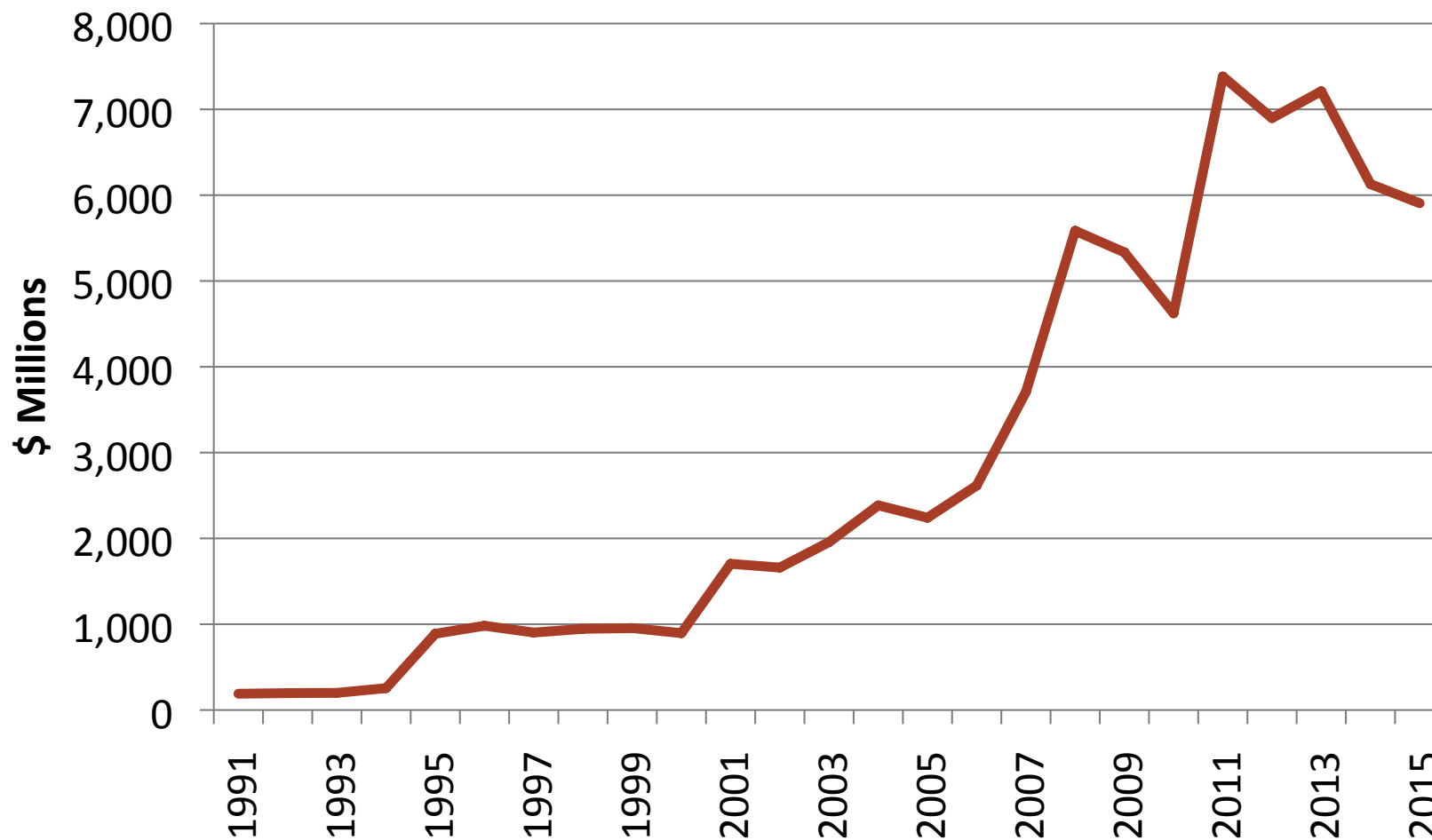


# Reflections on 35 Years

- Federal costs have increased dramatically.
  - Increased premium subsidies.



# Federal Crop Insurance Premium Subsidies

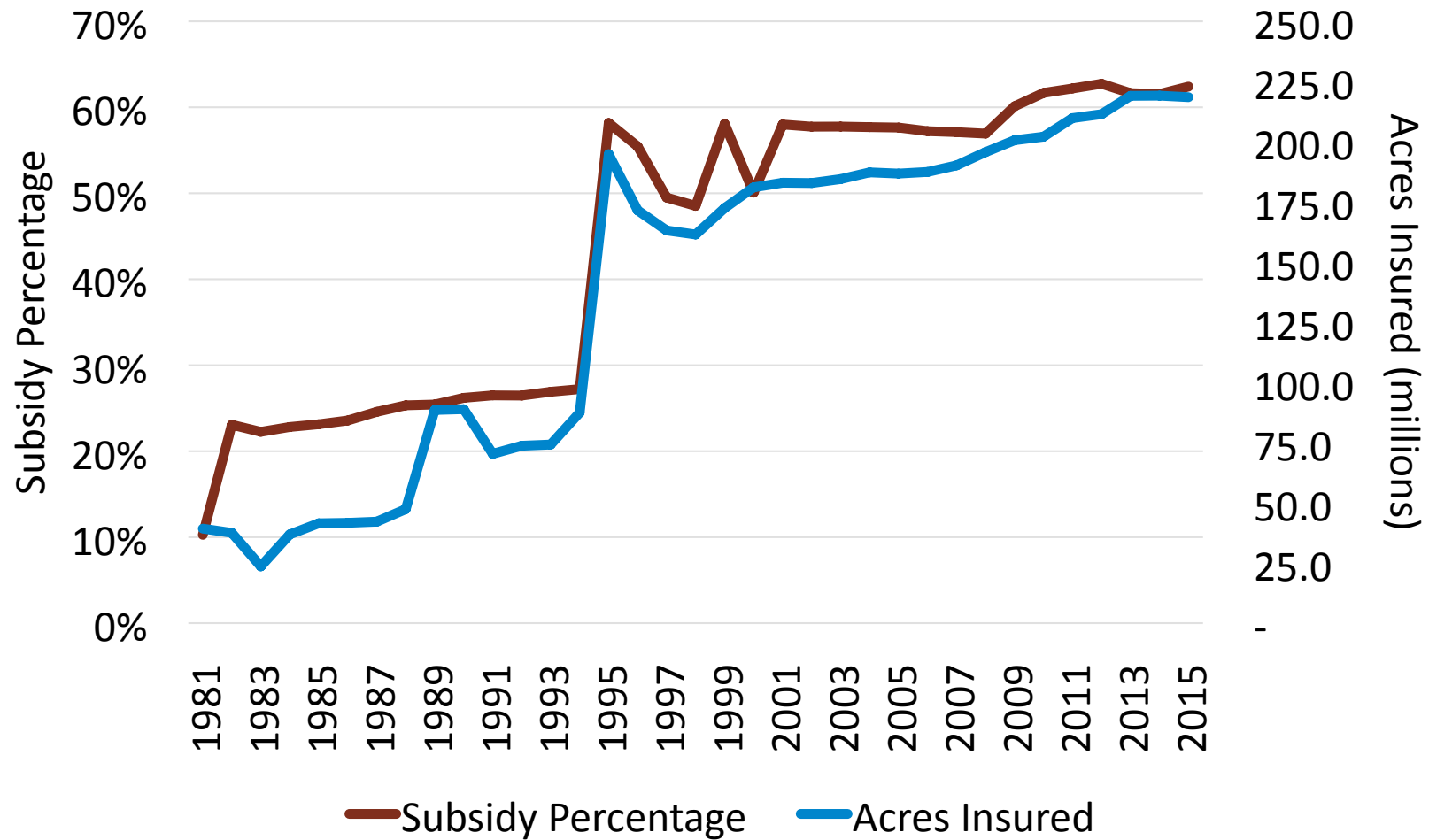


## Reflections on 35 Years

- Federal costs have increased dramatically.
  - Increased premium subsidies.
  - Program has evolved from being exclusively yield insurance to being primarily revenue insurance.
  - Many new crops (and some livestock) covered.



# Subsidy Percentage and Acres Insured (6 largest crops)



# Private-Sector Advantages

- Existing delivery system.
  - Sales and claims adjustment.
- But will private sector serve everyone?
  - May only serve largest growers.
  - May only serve lowest risk growers.
  - May only operate in major farming regions.





# Government Advantages

- Premium subsidies.
- Reinsurance?
  - Global reinsurance capacity has increased tremendously in recent decades.
  - But governments can generally access contingent capital at much lower cost than the private sector.
  - Administrative agencies may not have access to government borrowing authority.
  - Even with government reinsurance, must consider incentive compatibility. Private delivery system needs to have some “skin in the game?”



## Reflections on 35 Years

- As with any government program, crop insurance creates vested interests who seek to extract rents.
- With public-private partnerships, both farmers and insurance companies actively utilize political means to pursue/defend their interests – and those interests do not always align.
- The government agency tasked with administering the program is often caught between these competing interests.
  - And increasingly . . . a number of other interests.



## Reflections on 35 Years

- Since 2014, crop insurance has essentially become **the** federal farm program in the United States.
- Policy-makers (and various interest groups) have multiple goals for the agricultural sector: domestic food production, exports, soil health, water quality, improved irrigation efficiency, scenic amenities, etc.
- Incentivizing farmers to pursue these multiple goals becomes much more challenging when **the** farm program is a public-private partnership.
  - Not just “government money” involved.
  - Primary contact with farmers are AIP representatives.



# Summary

- Public-private partnerships offer some efficiencies for scaling-up crop insurance programs.
- What role for private sector? Must be concerned with incentive compatibility.
- What role for government (beyond premium subsidies). Will private delivery serve everyone?
- Be aware that:
  - Insurance companies will engage politically to pursue their interests.
  - If private money is at risk, it becomes more difficult to pursue other social objectives through crop insurance.



**Thank you!**



**MISSISSIPPI STATE**  
UNIVERSITY™