MPCI UPDATE
CROP REVENUE COVERAGE

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Given the current structure of agricultural operations in the U.S., it's difficult to believe only 100 years ago large portions of America were still isolated and unsettled territory. The government model in which 160 acre (US) parcels of land were deeded free of charge to settlers willing to stake their claim quickly expanded westward and a patchwork of small, family farms spread steadily across the Plains. But because of vast geographic differences, weather patterns, markets and other factors, this model was not as successful in the west as it had been in the east. Over time many farmers across the plains found that a 160 acre farm was simply not enough to maintain a viable operation.

That trend towards consolidation in American farming -- accelerated by mechanization and industrialization -- has been going on for many decades. As the U.S. continues moving away from a mostly agrarian society characterized by thousands of family owned and operated diversified operations to increased specialization and increased use of capital inputs, agriculture is now speeding towards a structure where larger farms produce greater amounts of commodities at much smaller margins than was ever possible in the past.

While the underlying causes and eventual impact of this movement can and will continue to be debated, there is no denying the basic structure of American agriculture has changed dramatically and continues to evolve. Studies show the overall rural farm population in the United States has fallen to only one-tenth the level seen in 1900. Between 1950 and 1997, the typical Iowa farm operation doubled in size, while the total number of farm operators dropped by one-half. Larger farms are now accounting for more and more of the total agricultural production.

Farms with gross annual sales of $500,000 (US) or more now produce almost 37% of the market value of crops sold;. Operations with annual gross sales of $250,000 (US) or more account for only 13.5% of the total farms but now produce over 60% of the total market value of crops marketed. Farms in the U.S. are now defined as being either "small" or "large" while the traditional, moderately-sized, typical farm family finds themselves in the middle, increasingly unable to efficiently compete with operations on either end of the spectrum.

From a social and cultural point of view, a strong farm economy is necessary to sustain rural communities and any farm population decline is naturally viewed as a major threat to their viability. The concern among policy makers is that a continued decline in the farm economy will lead to a decline in that rural population, eroding the ability of these communities to provide public services necessary for their citizens. The fear is that eventually these communities will become too small to be self-sustaining and will literally disappear.

Because the farm population in the U.S. has been significant and historically enjoyed considerable political support, government farm programs have provided a high level of financial assistance and protection from the risk that is naturally inherent in agriculture. In addition, many individuals seem to share an emotional bond and protective instinct towards farmers and farm families. As a result, the first half of the 20th century in the United States incorporated agricultural policies which to a large extent shielded producers from the harsh realities of risk and risk management. The government essentially assumed much of the production risk through annual disaster payments. A large part of the market risk was absorbed by an ongoing program of annual support payments. And so for several generations, the American farm "safety net" was essentially designed, owned, operated and managed by the government.

Early Privately-Owned Insurance Policies Fail

There have been many attempts to supplement or replace the government role in risk management for U.S. farmers through the years. In the late 1800's, the only insurance available for U.S. crops was very basic fire and hail policies. The earliest known all-risk crop insurance coverage was offered in 1899 by a Minnesota company with poor results. It essentially stated the company would purchase the entire crop raised under the policy at a rate of $5 (US) per acre with a premium of 25 cents per acre. Other companies experimented with crop insurance coverage and in 1917, a company from Pennsylvania issued policies in North Dakota with equally poor results. A drought in the first year and questionable business practices left the company unable to pay all losses and the firm quickly folded.

Hail and fire coverage on growing crops continued to be the main type of crop insurance available to producers in the early part of this century, yet hail damage actually accounted for only two percent of all damage to crops. Other unpredictable and sometimes severe weather conditions, particularly drought, remained the main cause of crop losses. In 1936, crop insurance actually became an issue in the Presidential campaign between Franklin Roosevelt and Alf Landon of Kansas. Late in 1936, the United States Department of Agriculture (USDA) began researching how to create and deliver some type of all-risk crop insurance to farmers. In that study, the USDA identified three main reasons crop insurance programs had not worked in the past:

- Limited areas of coverage which hindered geographic dispersion of risk
- The need for price coverage as well as yield coverage
- Inadequate data for determining premiums on an actuarial basis

Surprisingly, these three issues are still viewed as the main concerns not only in the U.S. crop insurance program, but in nations worldwide who are attempting to create a similar risk management program.

Federal Crop Insurance Corporation Created

Following this USDA study, Congress enacted legislation in 1938 which created an entirely new agency within the USDA called the Federal Crop Insurance Corporation, or FCIC. The FCIC initially authorized insurance for wheat planted for harvest in 1939 between 50 and 75 percent of "recorded" or appraised average yield against a wide variety of perils including drought, flood, hail, winterkill, lightning, tornado, insects, disease and other unavoidable causes. But this initial experience with federal crop insurance was not encouraging. The FCIC lost money on this new coverage and in 1943, was forced by Congress to temporarily cease writing new contracts due to large underwriting losses and low levels of farmer participation.

Following WWII and for the next 10 years, changes to the program were relatively minor but the program still never achieved any large level of success. Congress was willing to continue subsidizing operating and administrative costs to deliver the program, although premiums were expected to cover indemnities during most normal crop years. In 1956 several private crop insurance companies entered the market providing an early form of multi peril crop insurance sold as a supplement to the traditional hail policies. The companies charged a higher premium and offered additional protection from perils

such as disease and drought. But in spite of these various experiments in the 1950's regarding methods and crops, these private policies did not offer a level of protection or price that could compete with the federal all-risk crop insurance program.

More crops were gradually added to the program over the next 20 years and a detailed history began to be created allowing rates and coverages to be evaluated and changed to address both the needs of the government from a budgetary standpoint and evolving needs of farmers. By the 1970's, efforts began to focus on how premiums and coverage might be based on the farmer's individual experience rather than relying on the traditional method, which had been to determine average yields on a county-wide basis. A study in 1977 and subsequent pilot project brought the concept of more individualized crop insurance to the marketplace and in 1978, the movement gained even more momentum as the Carter administration asked Congress to eliminate ad hoc, emergency federal disaster payments and rely more on an expanded crop insurance program.

This marked the first real examination of how federal disaster payments actually affected participation in the crop insurance program. Many critics claimed that disaster payments encouraged losses that were actually caused by poor management decisions and poor farming practices. They believed disaster payments were often in direct competition with the crop insurance program, as history showed time and time again that Congress would likely step in to provide needed ad hoc assistance to farmers when times got tough.

The result was yet another attempt to fine-tune the crop insurance program with Congressional approval of a major legislative package passed in 1980. This legislation substantially broadened the existing crop insurance program and expanded FCIC authority to insure any agricultural commodity in the U.S. where there was sufficient actuarial data available. For the first time, it also instituted a subsidy formula for producers in which 30 percent of the premium was paid by the government on coverage of 50 and 65 percent yield guarantees, although that formula "capped" so the same dollar amount of subsidy would be paid on coverages up to the 75 percent level.

Public/Private Partnership Evolves

In a larger sense, the 1980 legislation was also intended to create a new and enhanced partnership between public and private crop insurance providers. In fact, this legislation laid the basic foundation of the present system in recognizing that private companies and local agents were absolutely essential to fulfilling the goal of establishing a nationwide, all-risk crop insurance protection network for agricultural producers.

Under the current program, the FCIC provides a financial backstop to private companies delivering approved coverage through reinsurance agreements. Under this arrangement, risk-bearing private companies deliver and share the underwriting experience of reinsured crop insurance policies which are purchased by producers. Private companies participating in the program share in the underwriting results of the policies they administer – both gain and loss. Private companies also benefit due to the fact all policies written are backed by the full faith and credit of the U.S. government in case of catastrophic loss or periods of deficit. Many companies reinsured under arrangements with the federal government still cede part of their risk to the private market.

To be able to participate in the federal reinsurance program, private companies enter into what is called a Standard Reinsurance Agreement (SRA) which is written by the FCIC. These companies which are reinsured by the federal government have considerable oversight and are required to register all details of their insurance operations with the FCIC, submit to spontaneous government audits and abide by government policies and regulations. Although the 1980 legislation was intended to use private sector resources "..to the maximum amount possible," historically the government has largely limited and controlled private company operations in regards to the delivery of crop insurance coverage. Many now believe the alliance envisioned in the 1980 legislation has never really been realized.

In some cases, private companies have worked on their own to create new coverages that address specific needs of producers that can not be met with the more traditional and sometimes rigid oversight of the government. Non-federal products marketed by private companies are reinsured under private agreements from reinsurance firms in the U.S. and worldwide. In some cases, companies have been approved to enter into a contract with the government in what is called a stop-loss agreement which provides an additional financial backstop for private, supplemental coverage in case of catastrophic loss or unforeseen loss.

Low Participation Calls For Review Of Program

In spite of these many changes which have occurred over almost a century, participation in the crop insurance program remained relatively low. Producers in some areas of the United States continued to completely ignore risk management and relied totally on government disaster programs in case of serious production loss or depressed market prices. Many continued to believe crop insurance coverage simply did not fit the needs of producers. Crop insurance programs managed by FCIC have been largely based on the 1938 model of agriculture when literally millions of farms had the same basic need for a risk management safety net. The 160 acre farm for the most part no longer exists. U.S. farms began to differ in size, financing, marketing practices and production, which means their risk management needs were also quite different and diverse.

One major producer concern that was viewed as harming overall participation was the method used to determine average or traditional yields on which crop insurance coverage was computed. In 1983, a new method was implemented which was called the Grower Yield Certification, later renamed Actual Production History (APH). Before APH was adopted, benchmark yields for each producer were based on a general formula determined in large part by the producer's location within the county, with the FCIC actually setting yields.

The APH essentially provides the basis for an insured's coverage. Insureds certify acres, production and yields to establish their APH benchmark and as more years of actual history are reported, yields more accurately reflect the individual's production capabilities. The APH was initially based on 10 years of production history, but in 1994 that was reduced to a four-year average.

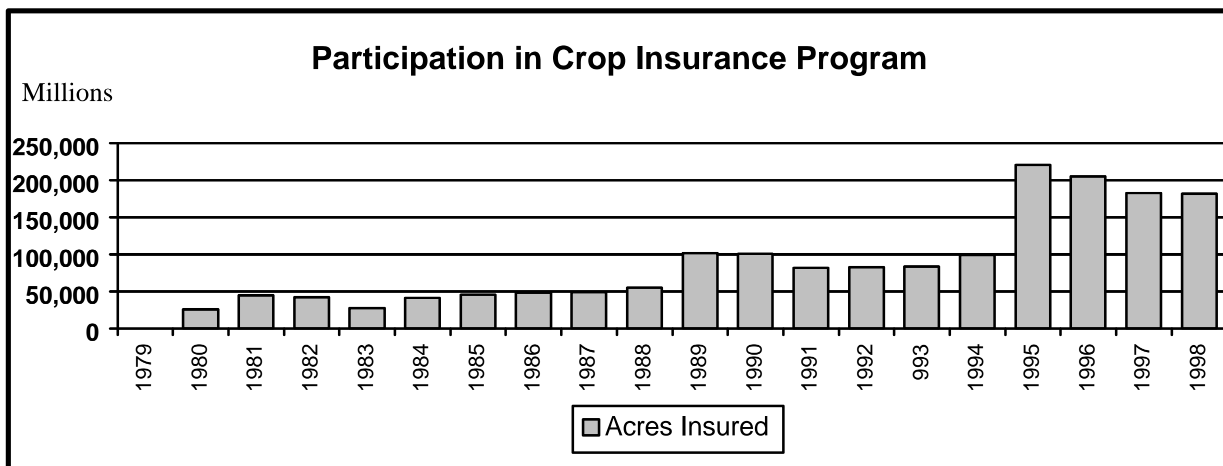
For farmers who have not been farming long enough to establish their own individual APH, an alternative method using what is known as a "transitional" yield, set by the FCIC, is blended with the producer's actual production records each year to establish the four-year database required to establish

coverage. Coverage for new producers who have never farmed and producers growing new crops in a specific county are assigned 100 percent of the transitional yield.

By 1993, it was clear that once again new types of coverage and new concepts were needed to address the changing needs of U.S. agriculture and producers. Among the complaints: producers often had to repay deficiency payments received from the government when prices went up, even if the producer did not raise a good crop; lack of market price protection; continued problems in establishing an actual production history in computing coverage levels; and having to insure all units under the same plan rather than coverage by production unit.

In 1994 Congress approved the Federal Crop Insurance Reform Act, which was intended to replace ad hoc disaster payments to farmers with mandatory crop insurance participation. This change also created a new, minimum level of catastrophic (CAT) insurance coverage. Under the new legislation, farmers were required to carry at least the catastrophic level of insurance to remain eligible for federal farm support programs.

Two methods of delivery were available to assist farmers in signing up for some level of crop insurance coverage. Through their local USDA office, farmers could sign up for the catastrophic level of coverage only. But the primary source for crop insurance delivery continued to be the independent local crop insurance agent, where farmers could get a more comprehensive explanation and comparison of the various coverage options that were available. With the catastrophic coverage only providing protection when 50% of the yield was destroyed and paying at only 60% of the price, the education effort to farmers continued to focus on utilizing their crop insurance coverage in the total risk management of their farm. If Congress truly wanted to eliminate emergency disaster payments to farmers, adequate crop insurance protection by every farmer would be necessary to replace the farm income when crop losses occurred.



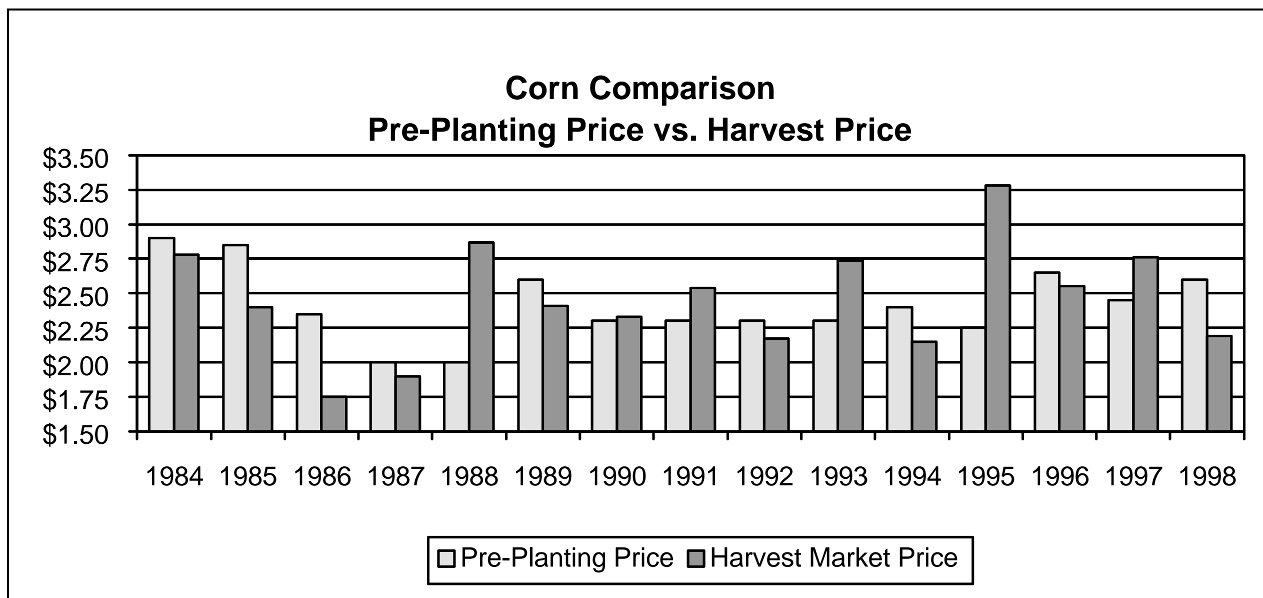
Freedom To Farm Creates Risk-Share Environment

Coincidentally, Congress was embarking on a new course for American agriculture which cumulated a 10-year effort at policy reform called Freedom to Farm. In exchange for phasing out price supports over a seven-year period, farmers were free to plant as much as they wanted of whatever crops they wanted without restrictions. With government price supports fading away, it suddenly became the producer's responsibility to build and maintain their own safety net using the new and growing variety of risk management tools.

American Agrisurance began research in 1995 on an entirely new concept in risk management which protected farmers from both yield and income loss. Over an 18-month period, the American Agrisurance research staff worked with farmers, regulators, economists and others in the crop insurance industry to create a new concept called Crop Revenue Coverage, or CRC.

The research found that farmers who were using alternative marketing strategies to increase the profit potential from their crop were at a particular disadvantage. They discussed the problem they had with the MPCI program and their worry about missing high harvest prices if they sold too soon. Farmers marketing their crop prior to harvest are taking a gamble that they will in fact have a crop to harvest. If they market their bushels ahead of harvest and lose their crop, they still must fulfill their prior marketing obligations, which usually involves "buying back" bushels. If harvest prices are higher than the MPCI price they are receiving on their loss, it cuts even further into their profits. By creating a policy that included a provision for high harvest prices, American Agrisurance saw it could provide a viable tool to assist farmers in their marketing efforts.

The chart below is an example of corn prices over the last 15 years comparing the pre-planting price with the harvest price. As you can see, 40% of the time, farmers were in a position where loss payments were less than prices being offered at harvest.



Once the basic CRC concept had been developed, the next step involved gaining approval from FCIC so that federal reinsurance could be secured. Lengthy discussions and presentations with the government board took place as they made their investigation into the rating, policy, procedures, and loss adjusting for the new coverage. No stone was left unturned as federal officials worked through their research. The first proposal by American Agrisurance to FCIC was to offer the program on a limited scale in Iowa and Nebraska for corn and soybean producers. Influence from key legislators in the two states provided important political support to assist our efforts to get the program approved.

Finally, with only 60 days in which to train agents and farmers about CRC before the sales period ended on March 15, approval was received from the FCIC to offer the policy in a pilot program. In spite of the short sales season, crop insurance companies authorized to offer the coverage sold 84,000 crop policies to over 35,000 farmers in a two-state pilot project that first year.

Although American Agrisurance developed CRC, in order to obtain federal reinsurance and be eligible for federal reimbursement for administrative and operating expenses CRC is shared with other companies operating under the existing standard reinsurance agreement (SRA). Currently, 17 crop insurance companies in the U.S. are eligible to sell CRC. There is still no mechanism for companies researching and developing coverage such as CRC to be compensated or otherwise recoup their investment.

This has discouraged and severely limited the efforts of private companies to create new and innovate risk management coverage to meet the changing needs of farmers, lenders and others with a stake in the success of agricultural producers. The problem of ownership and fair compensation through royalties or some type of user fee for new ideas and coverage is a major issue connected to the current effort in Congress to reform and improve the crop insurance program.

The popularity and widespread acceptance by farmers for CRC has been the impetus for American Agrisurance to seek expansion for the policy to a nearly nationwide basis. With the support of commodity groups, politicians and farmers themselves, Crop Revenue Coverage is now available on Corn, Cotton, Grain Sorghum, Rice, Soybeans and Wheat in virtually all of the major growing states for each crop. By the 1998 crop year, just three years after the first two state pilot offering, more than 152,000 CRC policies were sold in the United States, making up 15% of the total crop policies sold for corn, cotton, grain sorghum, soybeans and wheat.

Price And Yield Protection With Crop Revenue Coverage

Crop Revenue Coverage gives farmers the opportunity to receive a revenue guarantee versus the former yield guarantee available under Multiple Peril Crop Insurance (MPCI). It protects against losses caused by both yield and price. A common complaint heard about the MPCI program was that it insured farmers against only yield loss, with no provision to compensate for disastrously low prices, or to buy grain if the crop falls short and the farmer needs the bushels for feed or to meet prior grain contracts. With CRC, farmers receive a minimum revenue guarantee that can go up if prices are high at harvest. Premiums are generally 30-45% higher than the standard Multiple Peril policy, but for producers who want the added security of knowing they are covered if prices go up so they can complete their marketing goals, these benefits are worth the extra cost.

When a farmer signs up for Crop Revenue Coverage prior to planting, a Minimum Guarantee is calculated using actual production history times the market price and the selected coverage level (50%, 55%, 60%, 65%, 70%, 75%). At harvest, a Harvest Guarantee is calculated using the same production history and coverage level multiplied by the harvest price. The higher of the Minimum Guarantee or the Harvest Guarantee becomes the Final Guarantee. A CRC loss occurs when the calculated revenue falls below the Final Guarantee. The calculated revenue is determined by taking the farmer's actual yield times the harvest price.

One of the hurdles that may prevent many farmers from utilizing forward contracting or other marketing alternatives is the fear of not being able to make delivery. The other fear is price. By combining both yield and market price in its equation, CRC eliminates these forward marketing concerns. Farmers know up front a certain number of bushels are guaranteed through CRC. Additionally, they are assured those bushels are covered at no less than the replacement value at harvest, and possibly at a higher level. This assurance provides farmers with the confidence they need to become more aggressive marketers.

With the security of a revenue guarantee, Crop Revenue Coverage appeals to farmers who utilize alternative marketing strategies. Or, it may encourage them to explore more profitable marketing opportunities. It also appeals to farm borrowers and their lenders because they know up front what their bottom line protection will be.

Another unique feature of the CRC policy is the use of the regional commodity exchange to set the base price and the harvest price. Crop prices usually vary from one part of the country to another based on growing conditions and trading demand. Utilizing the closest "nearby" exchange to set CRC prices allows farmers to receive guarantees that more closely reflect prices offered at their local elevator. Crops covered by the CRC policy and the specific commodity exchange used to calculate the price for those crops are as follows:

Corn	Chicago Board of Trade
Cotton	New York Cotton Exchange
Grain Sorghum	Chicago Board of Trade
Rice	Chicago Board of Trade
Soybeans	Chicago Board of Trade
Wheat	Chicago Board of Trade, Kansas City Board of Trade, Minneapolis Grain Exchange, Portland Grain Exchange

Comparing MPCI and CRC

The most significant distinction between Multiple Peril Crop Insurance and Crop Revenue Coverage is the revenue guarantee versus the yield guarantee. Other differences include price calculations, pre-planting and harvest guarantees, and loss payments. The comparison below highlights each of the policy features:

	Multiple Peril Crop Insurance (MPCI)	**Crop Revenue Coverage (CRC)**
GUARANTEE	MPCI provides a yield based guarantee that is calculated by taking the Actual Production History (APH) yield times the selected level times the price	CRC provides a Minimum Guarantee calculated prior to planting by taking the Actual Production History (APH) yield times the selected level times the base price A Harvest Guarantee at harvest is calculated by taking the APH yield times the selected level times the harvest price The Final Guarantee is the higher of the two
PRICES	55-100% of the market price as established by FCIC	95% or 100% of the selected commodity contract traded on regional commodity exchange
COVERAGE LEVEL	CAT, 50%, 55%, 60%, 65%, 70%, 75%, (80%, 85% Limited)	50%, 55%, 60%, 65%, 70%, 75%, (80%, 85% Limited)
UNITS	Basic and optional	Basic, optional and enterprise Basic - all insurable acreage of the crop in the county Optional - Basic unit may be divided if for each optional unit, you provide production records and keep production separate for each proposed optional unit. Enterprise - made up of two basic units or a basic unit divided into at least two optional units
LOSSES	Paid when actual yield is less than guarantee	Paid when calculated revenue is less than Final Guarantee Calculated Revenue is actual yield times the harvest price

COVERAGE EXAMPLE

	MPCI (Corn)	**CRC (Corn)**
Acres	500	500
APH	154 bu.	154 bu.
Yield Guarantee (75%)	115.5 bu.	115.5 bu.
MPCI Price	$2.10	
Base Price	-----	$2.40
Harvest Price	$2.35	$2.35
CRC*Plus* Price		
CRC/CRC*Plus* Price		
Minimum Guarantee (APH x Base Price x Level)	-----	$277.20
Harvest Guarantee (APH x Harvest Price x Level)	-----	$271.43
Final Guarantee	-----	$277.20
MPCI Coverage/Acre (APH x Price x Level)	$242.55	-----
Actual Yield	95 bu.	95 bu.
Calculated Revenue (Actual Yield x Harvest Price)		$223.25
MPCI Loss Calculation: 115.5-95=20.5 x $2.10	$43.05/ acre	
CRC Loss Payment/Acre		$53.95/ acre
Loss Payment/ Total Acres	$21,525	$26,975

Supplemental Products Add Specialized Risk Protection

In addition to federally reinsured coverages, a number of companies also have developed supplemental products that enhance the MPCI or CRC policy. Designed to cover specific risk situations, a supplemental policy is only available from the company that developed it. Unless it goes through formal FCIC policy approval procedures, it is not able to be covered under federal reinsurance guidelines. Generally, companies will seek private reinsurance to help cover the risk accrued from the sale of supplemental policies. Supplemental policies are still subject to FCIC review and State Insurance Department approval before they can be made available to the public.

Not only do supplemental policies give farmers another risk management option, they also are a competitive sales tool for the company designing and owning them. One policy designed by American Agrisurance to enhance Crop Revenue Coverage is Crop Revenue Coverage *Plus*™. First offered to CRC customers in 1997 in the states of Iowa and Nebraska, CRC*Plus*™ gives CRC insureds the ability to increase the base price used to calculate their guarantee. When market prices are low, the CRC base price will also be low, and farmers may find that their insurance guarantee isn't enough to cover even their production costs. With CRC*Plus*, they have the ability to add an additional amount to the base price of the specific crop. As can be expected, the CRC*Plus* policy will be more popular in some years than in others in correlation to how market prices fluctuate. Low price years will create increased demand and high price years will cause less interest.

After three years of moderate sales and attempting to convince producers of the value of supplemental coverage like CRC*Plus*, changing conditions in U.S. agriculture caused a literal explosion of applications for this coverage in 1999. Commodity prices continued to decline, exports sales remained flat and producers in many parts of the country were experiencing significant financial stress. Although Congress pledged that "Freedom to Farm" legislation made it unnecessary to ever again provide emergency financial assistance to farmers, in January a massive emergency aid bill was passed which provided significant, direct payments to producers. Realizing this type of emergency assistance had historically hurt participation in the crop insurance program, Congress specifically allocated $400 million (US) which was to be used to provide further premium subsidies, boost overall participation, encourage producers to buy up to a higher level of coverage and choose more sophisticated risk management strategies.

Due to these conditions, American Agrisurance had anticipated and planned for a five-fold increase in sales for CRC*Plus* in 1999 but was quickly overwhelmed by demand for the coverage. But this situation points out the difficulty producers have in accessing new types of crop insurance coverage that meets their needs without some type of financial backstop from the federal government.

In this case, commitments from reinsurers to back CRC*Plus* was more than adequate using even the most optimistic sales projections. But there was no provision or other option to obtain federal reinsurance for CRC*Plus* under the standard reinsurance agreement. One solution would have been for the FCIC to enter into a stop-loss agreement with the company, used only under the most catastrophic or extreme circumstances but giving private reinsurers the added confidence needed to increase their commitment. If new ideas and products are going to be developed outside the traditional SRA

agreement, the private and public sectors must begin working together to formalize stop-loss agreements or find other ways to allow private reinsurers more latitude to participate in these efforts.

More work is also needed with these new types of supplemental coverage to order to adequately monitor the level of sales activity and match that volume to pre-determined reinsurance commitments. But the huge demand from producers proves CRC*Plus* is a quality product that meets the new and changing needs of producers and we view it as a great success despite this temporary setback.

Now, almost 100 years after the first crop insurance coverage was offered to U.S. farmers, Congress is again considering major and sweeping changes to the program. Although there are many proposals now being suggested, there are several basic similarities which most seem to have in common:

- Invert the existing subsidy formula to provide higher subsidy for producers, encouraging them to buy higher levels of coverage
- Increase the amount of subsidy to a minimum 50% of premium at 65% coverage for all approved products
- Give producers the flexibility to apply their subsidy towards all approved products, including private supplemental products such as CRC*Plus*
- Establish a policy that if Congress approves ad hoc disaster assistance, the insured's premium in that year will be credited towards next year's coverag; eliminates "political" peril
- Resolve problems arising from FCIC acting as a regulator, administrator and competitor
- Establish a method of compensation to private companies for new product development such as CRC; provide retroactive compensation, royalties or user fees to companies for developing products currently on the market that achieve a level of market success
- Retain catastrophic (CAT) coverage as a "starter" policy or policy-of-last-resort but with a strong incentive to buy-up; realize basic CAT will likely not provide adequate coverage in case of a loss; government must recognize the cost of providing affordable, adequate coverage
- Place statute of limitations on audits and exams extending far beyond what is considered to be a reasonable timeframe
- Put the burden of fraudulent practices on producers

New and powerful economic forces continue to place incredible financial pressure on farms and farm operators worldwide. Government support programs and policies in many nations across the globe are similar to the profile of American agriculture in the 1940's through the 1970's. Farms are largely small operations, protected and heavily subsidized by the government, involving long traditions and many generations of family owner-operators. There is an emotional tie to agriculture and general agreement that this is an industry and a lifestyle worth preserving. But as U.S. policymakers have discovered, these farms and the governments which provide that level of support cannot be isolated from the impact of this new, worldwide marketplace.

Can the establishment of a strong crop insurance safety net help?

Nations considering options to traditional government farm policies can learn from our experience. The basic goals of crop insurance are to insure the producer's cost per acre, to replace reliance on ad hoc, government disaster payments and to protect the producer's equity. Adding the extra component of price protection into the crop insurance equation can provide a guaranteed inventory for growing crops, allows the producer to be more aggressive in using markets for pre-harvest sales and allows confidence and flexibility to act during "weather markets."

And so, in summary:

- As profit margins shrink for ag producers worldwide, the need for producers to adopt a risk management plan and utilize more sophisticated marketing strategies is growing;
- The success of crop insurance programs and the "safety net" they provide are not as dependent on the cost of the coverage as to how well the product or concept meets the needs of individual producers;
- The coverage or product must be able to be tailored to the individual as opposed to a "one-size-fits-all" concept;
- The input and active involvement of farmer/producers is absolutely critical in designing and creating crop insurance programs that are affordable and provide useful coverage;
- A partnership between private industry and government is needed to create this safety net but can only work when there is cooperation, dedication and a fundamental desire to serve the needs of farmers and farm communities.

It's been a pleasure to share my thoughts and experiences with you today. Hopefully, you can benefit from our successes, as well as our setbacks, as we have worked to bring new and innovative crop insurance coverage to U.S. producers. If you have any additional questions or would like more information on anything we have discussed here or as you move ahead on your own strategy, I would be happy to discuss it with you here or send you the material you require.

Again, thanks for this opportunity, and good luck.