Testimony of James R. Korin

Commodity Programs, Credit, and Crop Insurance – Part Two: Industry Perspectives to Risk Management and Access to Credit

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Chairwoman Smith, Ranking Member Hyde-Smith and members of the Subcommittee on Commodities, Risk Management, and Trade, thank you for the opportunity to testify on Federal Crop Insurance and the vital role it plays in rural America today. My name is James Korin, and I am the President of NAU Country Insurance Company, the country's second largest crop insurer, insuring nearly 45 billion dollars of liability on behalf of America's farmers and ranchers. I am speaking today on behalf of my company and the American Association of Crop Insurers (AACI), a trade association with membership that includes the companies, agents, reinsurers, and others involved in marketing and servicing Federal Crop Insurance. I am truly honored to be here today and am thankful for the support you have provided to America's farm and ranch families and, in turn, the rural communities in which they live. Without crop insurance, many rural communities across our great nation would not exist as they do today.

NAU's roots go back to the beginning of crop insurance, when our company's founder, James Deal – working with Congress and President Carter's Administration, including then Secretary of Agriculture Bob Berglund – helped craft and pass the Federal Crop Insurance Act of 1980. At the heart of this legislation was a partnership between the Federal Government, the private sector, and the American farmer. Through these relationships and the addition of the important principles of insurance, Federal Crop Insurance has grown and prospered, providing meaningful and necessary insurance coverage on approximately 135 crops covering nearly 400 million acres of production agriculture across the United States. Today, with the support of all the companies competing to write the business, our many great independent agents, and thousands of employees, crop insurance covers over 90% of production agriculture in America.

Crop insurance succeeds through the tenants of flexibility, affordability, and availability.

- **Flexibility:** Last year, farmers paid nearly $7 billion in premiums to purchase both individual- and group-rated coverage that they felt best fit their operational and risk management needs. Farmers have a considerable amount of flexibility in tailoring coverage to their operation, including options that range from individual-field to whole-farm to county-based coverage along with covering yield or revenue losses or both. Plans are available that provide coverage from 50% up to 95% within these selections, offering a plan for most farmers regardless of their size or financial situation. While this variety adds complexity, it is essential to ensure crop insurance is available to all.

- **Affordability:** Maintaining a safe and affordable food supply is an essential part of our country's national security. We all remember the stress and turmoil created when store shelves started to empty during the initial months of COVID. Without a safety net for our farmers and ranchers, grocery shelves could quickly empty after a bad year or growing season across America's heartland. Crop insurance on its own would be difficult – if not impossible – to administer without the support of the Federal Government. Because the government shares in the risk, provides premium support, and offsets a portion of the administrative costs, farmers can better afford the coverages they need. In addition, farmers shoulder a significant share of the premium, supporting the program and offsetting costs to the taxpayer, ensuring crop insurance can survive and expand.

- **Availability:** Private sector delivery and capital are important to the continuing success of Federal Crop Insurance. NAU and our competitors invest billions of dollars in rural communities, including contracting with agents and hiring employees, purchasing and expanding technologies, and shouldering all the other costs of operating a crop insurance company. In addition, we put billions of dollars of capital at risk when we write the business. There are no guarantees – just the potential to receive a return in the long run. All of these investments provide coverage to our nation's producers that is the envy of the world. At our company, many of our producers are paid within days of making a claim, a stark contrast to the months or years it takes to deliver unbudgeted ad hoc disaster assistance to impacted producers. This provides the resources they need to make operating and equipment loan payments or to pay operating costs to their local co-ops and suppliers. For this actuarially sound program to stay viable, it is important that the formula provides for enough return to cover a company's costs and reasonable long-term return on the billions of dollars of capital that we invest each year.

Despite the effectiveness of crop insurance, opportunities for improvement exist:

- The Crop insurance Industry continues to work with producers and commodity groups to enhance and/or expand coverages on crops that are needed to protect the future of production agriculture. For example, my company partnered with a developer and USDA's Risk Management Agency (RMA) to launch the Enhanced Coverage Option (ECO) policy in 2018. This county-level policy allows farmers to purchase higher coverage levels, reducing their deductibles and their exposure to natural disasters. Similarly, the Hurricane Insurance Protection-Wind Index (HIP-WI) endorsement has helped policyholders gain access to additional coverage when widespread disasters such as hurricanes occur. While both are recent additions to crop insurance through the 508(h) process authorized in the Federal Crop Insurance Act, farmers purchased over $500 million in coverage under these two policies in 2022 with the expectation of further increases for 2023. Making these policies more affordable will provide coverage for producers during future disasters and reduce the need for ad hoc assistance. Importantly, investing additional resources in crop insurance is more efficient for taxpayers and provides a level of security to our farmers that ad hoc programs do not.

- The 508(h) process is flexible and opens the door to offering new innovations in crop insurance. On the other hand, further refinement to the 508(h) process could help improve the delivery and effectiveness of the program. We continue to work with RMA on refining the timing of new crop insurance policies coming to market and to improve the development of new 508(h) products. Further refinement of the 508(h) process will ultimately lower the cost of new product introduction and facilitate implementation resulting in increased market uptake.

- Crop Insurance has been operating on administrative reimbursements that have been stagnant since 2015. This has occurred during a time of significant wage inflation and cost increases in every aspect of our business. The industry is appreciative of the equitable relief for insurance contracts for the 2021 reinsurance year that was included in the Consolidated Appropriations Act of 2023. A simple inflationary adjustment is being discussed and such an adjustment would benefit program delivery for all farmers.

- The American farmer has already embraced many environmentally friendly practices, including no-till farming, cover crops, variable-rate fertilizer and chemical application, and cleaner burning tractors that utilize DEF fluid to substantially reduce diesel exhaust emissions. Farmers who purchase crop insurance must certify their compliance with land management practices on highly erodible lands and wetlands that are commonly known as the "sodbuster" and "swamp buster" provisions that are administered by the USDA's Natural Resources Conservation Service (NRCS). While we believe further adoption of carbon-sequestering farming practices will help guide a better future for farming, we caution that non-market incentives should come from separately funded initiatives that do not detract from the current crop insurance program. After all, farmers and ranchers can only implement these practices to the extent that they remain in business, and just about every farmer will tell you that crop insurance is vital to the continued survival of their operation.

I would be remiss if I did not also take an opportunity to weigh in on some of the ideas that are often offered during farm bill deliberations. As I noted above, crop insurance is successful because it is guided by key insurance principles. Some of the suggested changes to crop insurance – namely, those that would exclude individuals from eligibility – would undermine the actuarial soundness of the program. Insurance works because of the diversity of the risk pool. It includes farmers and ranchers, both big and small, from virtually every county in the country. Diluting the risk pool threatens to undermine the effectiveness of crop insurance, inadvertently driving up the cost of premiums for those who remain.

In closing, I want to leave you with a reflection that I heard several years ago while attending a meeting of an Australian group called Thankful4Farmers. They raise funds to provide a helping hand to farmers facing tough times like the drought and massive fires that were raging in Australia at the time. The program developer said (paraphrased):

"The typical person may occasionally need a doctor or an attorney once in a lifetime, but the same person, three times a day, every single day, needs a farmer."

Crop insurance is the premier risk management tool for the American farmer, and it works. I am proud to be a part of a program that supports such a noble and important cause. I appreciate the support the industry has had from members of Congress on both sides of the aisle. With your support, we have created a public-private partnership that helps protect the American farmer and is truly the envy of the world. And, with the leadership of this Committee, crop insurance has been able to grow and evolve, adapting to new challenges in agriculture and providing farmers and ranchers with the risk management tools they need to succeed.

I am happy to answer any questions you may have and am always available for consultation in the future.