

# ***Insuring***

## ***Non-Irrigated, Continuous Summer Crops in Western Kansas***



- ✓ **Corn**
- ✓ **Grain Sorghum**
- ✓ **Sunflowers**
- ✓ **Soybeans**
- ✓ **Cotton**

***Insuring Dryland Crops in Western Kansas***

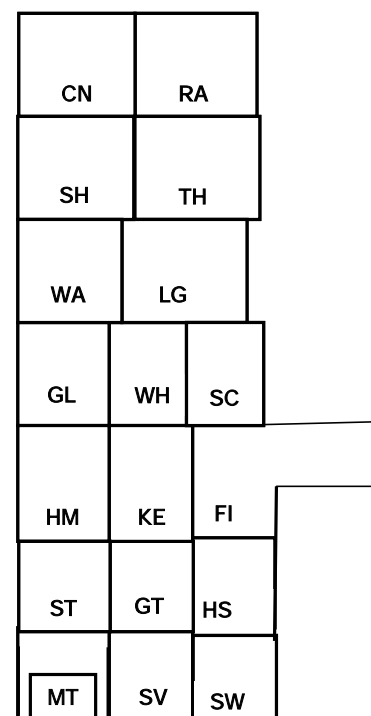
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***The Problem:  
High Loss Cost Ratios  
in Selected Counties***

**Indemnities  
Liability**

**or**

**Insurance Losses  
Coverage = APH x %  
Coverage x Price**



**18 Western  
Kansas Counties**

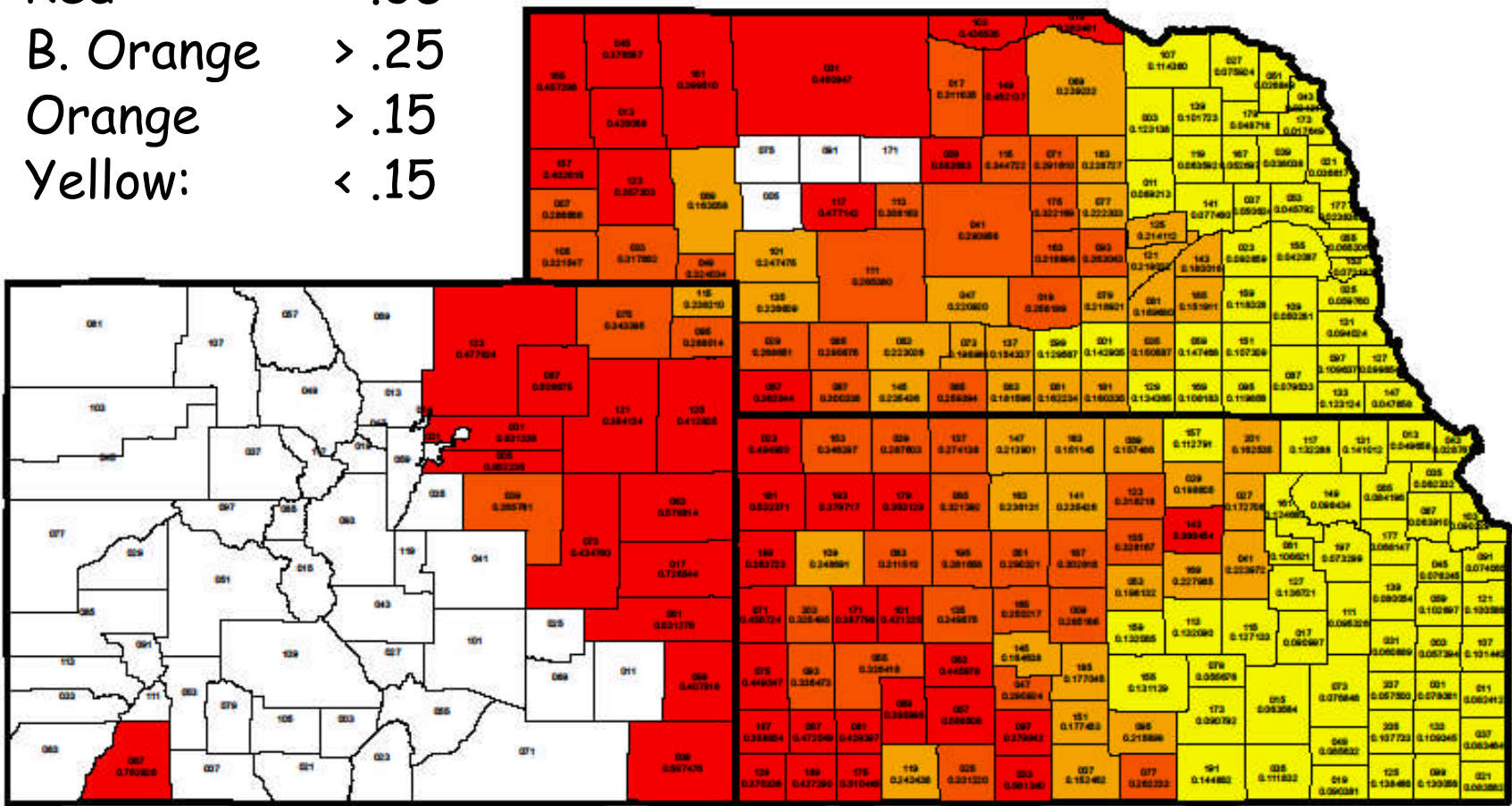
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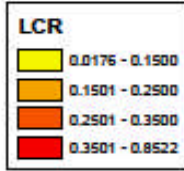


Non-Irrigated Corn  
1999 - 2008 LCR

Red > .35  
 B. Orange > .25  
 Orange > .15  
 Yellow: < .15

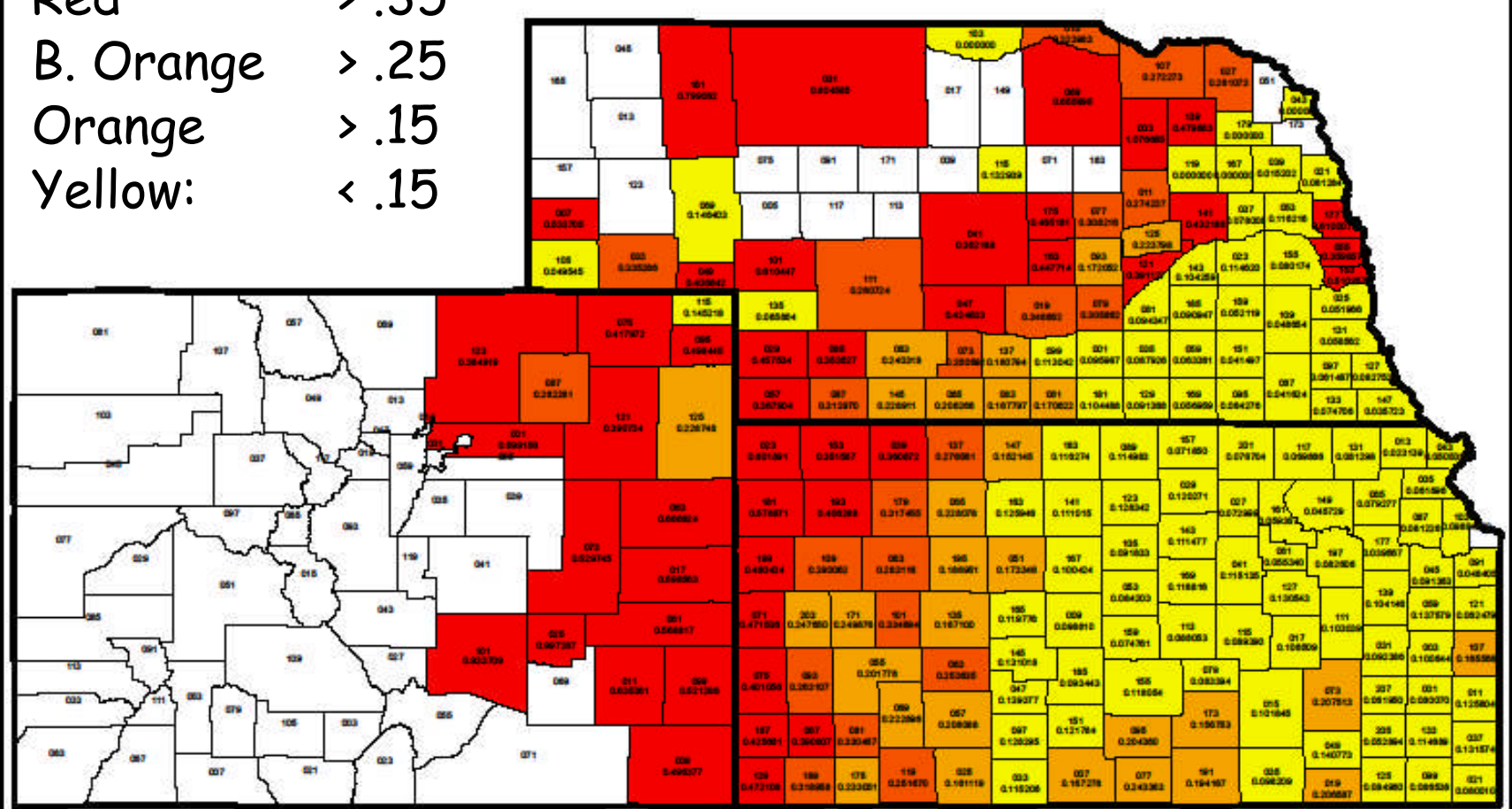


May 26, 2009



Non-Irrigated Grain Sorghum\*  
1999 - 2008 LCR

Red > .35  
 B. Orange > .25  
 Orange > .15  
 Yellow: < .15

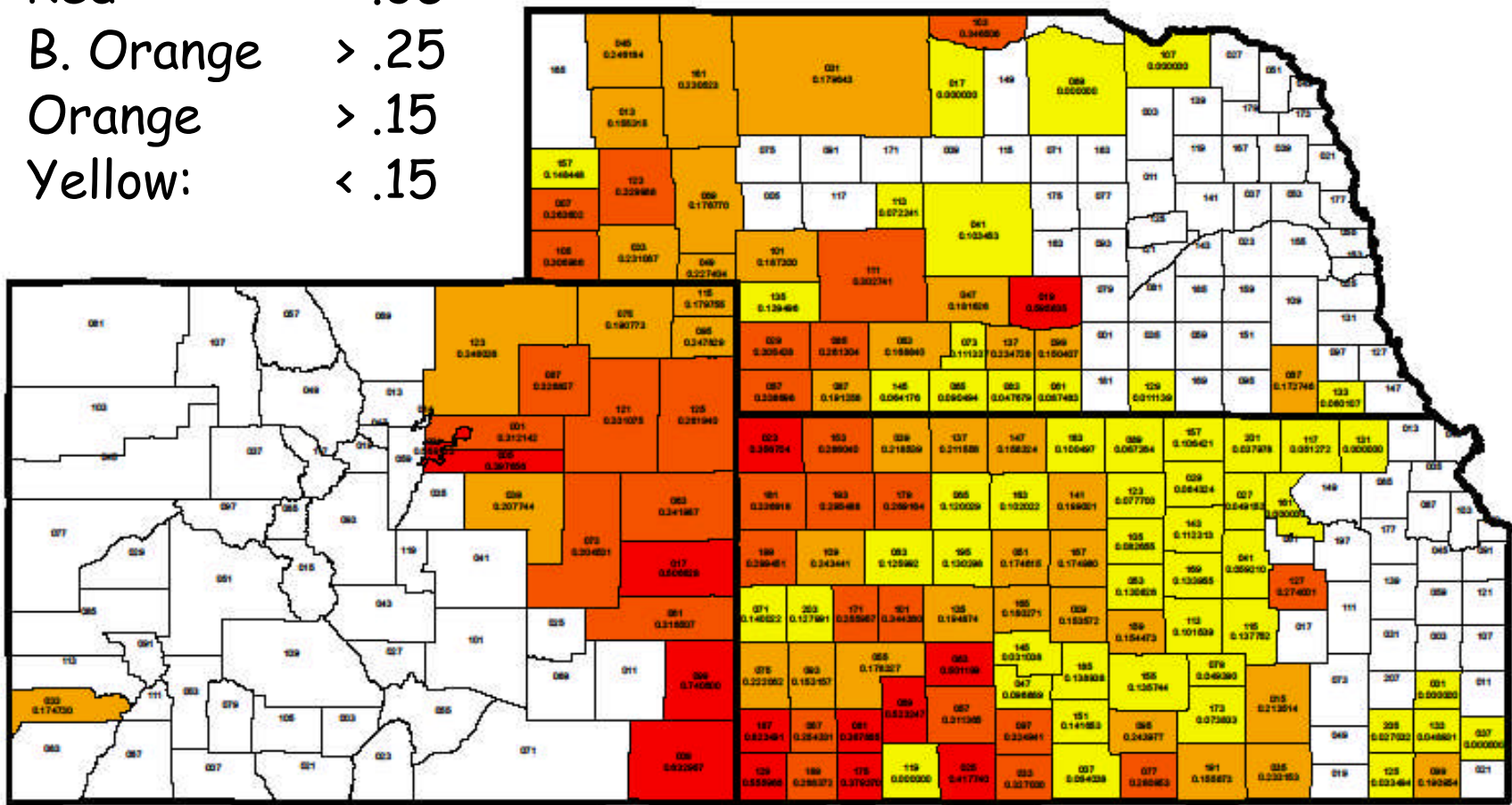


\* Includes both FAC and NFAC for Colorado

LCR	
Yellow	0.0000 - 0.1500
Orange	0.1501 - 0.2500
B. Orange	0.2501 - 0.3500
Red	0.3501 - 1.0767

Non-Irrigated Sunflowers\*  
1999 - 2008 LCR

Red > .35  
 B. Orange > .25  
 Orange > .15  
 Yellow: < .15



\* Includes both Oil and Confectionery

LCR	
Yellow	0.0000 - 0.1500
Light Orange	0.1501 - 0.2500
Orange	0.2501 - 0.3500
Red	0.3501 - 0.8235

## 1999-2008 Average Loss Cost Ratios Grain

	Corn	Sorghum	Soybeans	Sunflower
<b>Cheyene</b>	<b>0.49</b>	<b>0.60</b>	<b>0.55</b>	<b>0.36</b>
<b>Rawlins</b>	<b>0.35</b>	<b>0.35</b>	<b>0.43</b>	<b>0.29</b>
<b>Sherman</b>	<b>0.53</b>	<b>0.58</b>	<b>0.78</b>	<b>0.34</b>
<b>Thomas</b>	<b>0.38</b>	<b>0.41</b>	<b>0.39</b>	<b>0.30</b>
<b>Wallace</b>	<b>0.38</b>	<b>0.48</b>	<b>0.93</b>	<b>0.30</b>
<b>Logan</b>	<b>0.25</b>	<b>0.29</b>	<b>0.48</b>	<b>0.24</b>
<b>Greeley</b>	<b>0.46</b>	<b>0.47</b>	<b>0.68</b>	<b>0.14</b>
<b>Wichita</b>	<b>0.34</b>	<b>0.25</b>		<b>0.13</b>
<b>Scott</b>	<b>0.39</b>	<b>0.25</b>	<b>0.41</b>	<b>0.26</b>
<b>Average</b>	<b>0.40</b>	<b>0.41</b>	<b>0.58</b>	<b>0.26</b>

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## 1999-2008 Average Loss Cost Ratios Grain

	Corn	Sorghum	Sunflower
<b>Hamilton</b>	<b>0.45</b>	<b>0.40</b>	<b>0.22</b>
<b>Kearney</b>	<b>0.34</b>	<b>0.26</b>	<b>0.15</b>
<b>Finney</b>	<b>0.33</b>	<b>0.20</b>	<b>0.18</b>
<b>Stanton</b>	<b>0.36</b>	<b>0.43</b>	<b>0.82</b>
<b>Grant</b>	<b>0.47</b>	<b>0.39</b>	<b>0.25</b>
<b>Haskell</b>	<b>0.43</b>	<b>0.33</b>	<b>0.37</b>
<b>Morton</b>	<b>0.37</b>	<b>0.47</b>	<b>0.56</b>
<b>Stevens</b>	<b>0.43</b>	<b>0.32</b>	<b>0.27</b>
<b>Seward</b>	<b>0.51</b>	<b>0.23</b>	<b>0.38</b>
<b>Average</b>	<b>0.41</b>	<b>0.34</b>	<b>0.36</b>

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## ***A One Acre Example:***

<b><i>Liability</i></b>	<b>\$115</b> (43 Bu. APH x 70% x \$3.81)
<b><i>G. Premium</i></b>	<b>\$39</b> (\$16 farmer premium, 59% subsidy)
<b><i>Indemnities</i></b>	<b>\$60</b> (insurable crop losses)

$$\text{LCR} = \frac{\text{Indemnities}}{\text{Liability}} = \frac{\$60}{\$115} = .52$$

$$\text{Loss Ratio} = \frac{\text{Indemnities}}{\text{Premium}} = \frac{\$60}{\$39} = 1.54$$

***High LCR's are the Issue:  
RMA Suspects The Problem Is  
"Continuous Summer Crops"***

***a) W-F One crop in two years***

***b) W-Sum-F Two crops in three years***

***c) W-Sum-Sum-F Three crops in four  
years***

Back-to-back  
summer crops  
are the issue

- ✓ **Corn**
- ✓ **Grain Sorghum**
- ✓ **Sunflowers**
- ✓ **Soybeans**
- ✓ **Cotton**

***High LCR's  
RMA Suspects the  
Problem Is:  
"Continuous"  
Summer Crops***

**Grain Sorghum Yields  
W-S-S-F Rotation (Tribune, KS)  
KSU (Schlegel, Dumler and Thompson)**

	<b>wSsf</b>	<b>wsSf</b>
1999	99	74
2000	63	23
2001	68	66
2002	0	0
2003	60	41
2004	91	79
2005	81	69
2006	55	13
2007	101	86
2008	50	30
<b>Average</b>	<b>67</b>	<b>48</b>
<b>Stdev</b>	<b>29.7</b>	<b>30.5</b>
<b>"Continuous" %</b>		<b>72%</b>

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## ***What's Wrong With RMA's Suspensions?***

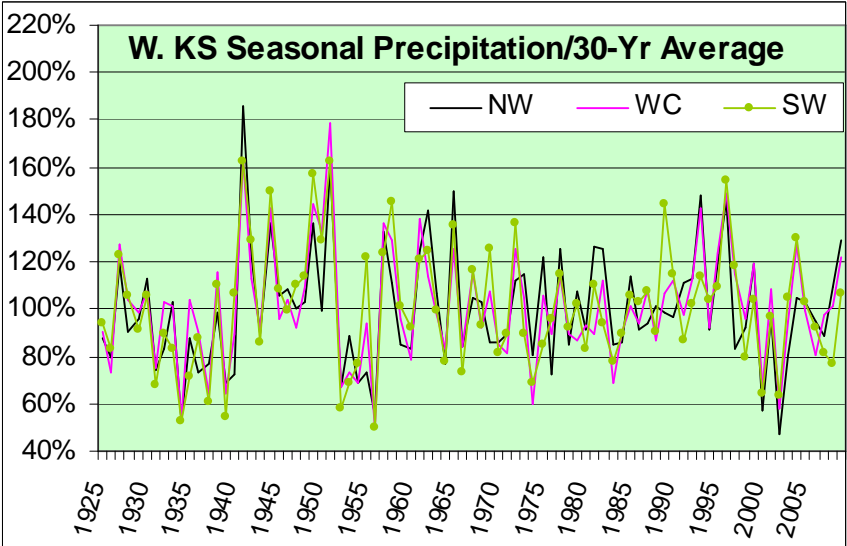
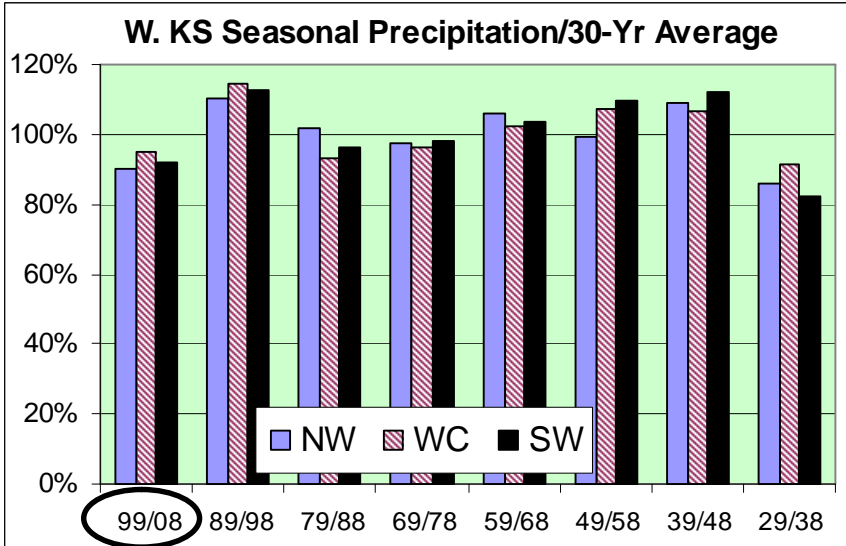
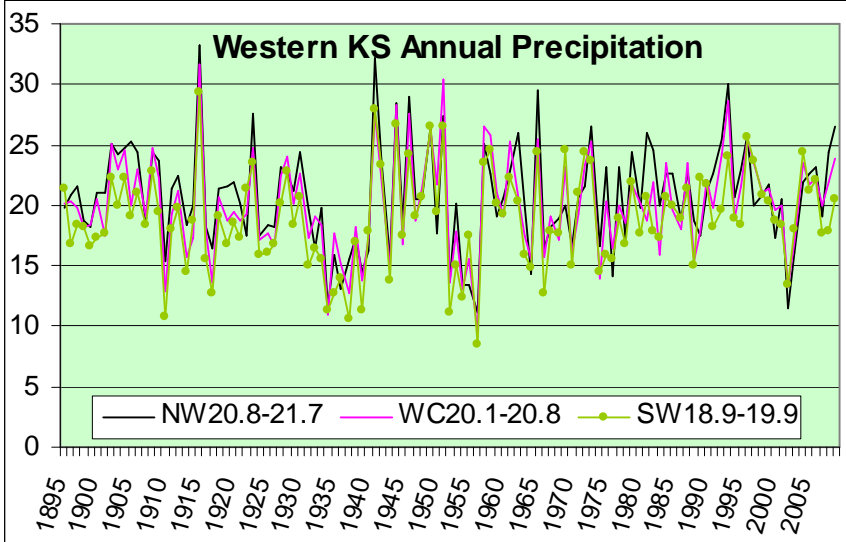
- 1) 1999 – 2008 Is too short of a period***
- 2) 1999 – 2008 Was unusually DRY***
- 3) There are many factors that impact  
summer crop acreage and yields in  
Western Kansas***
  - a) Tillage (i.e. no-till vs. conventional)***
  - b) Improving crop genetics***
  - c) Improving machinery***
  - d) Improving and safer herbicides***

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# 1999/08 Was Unusually DRY

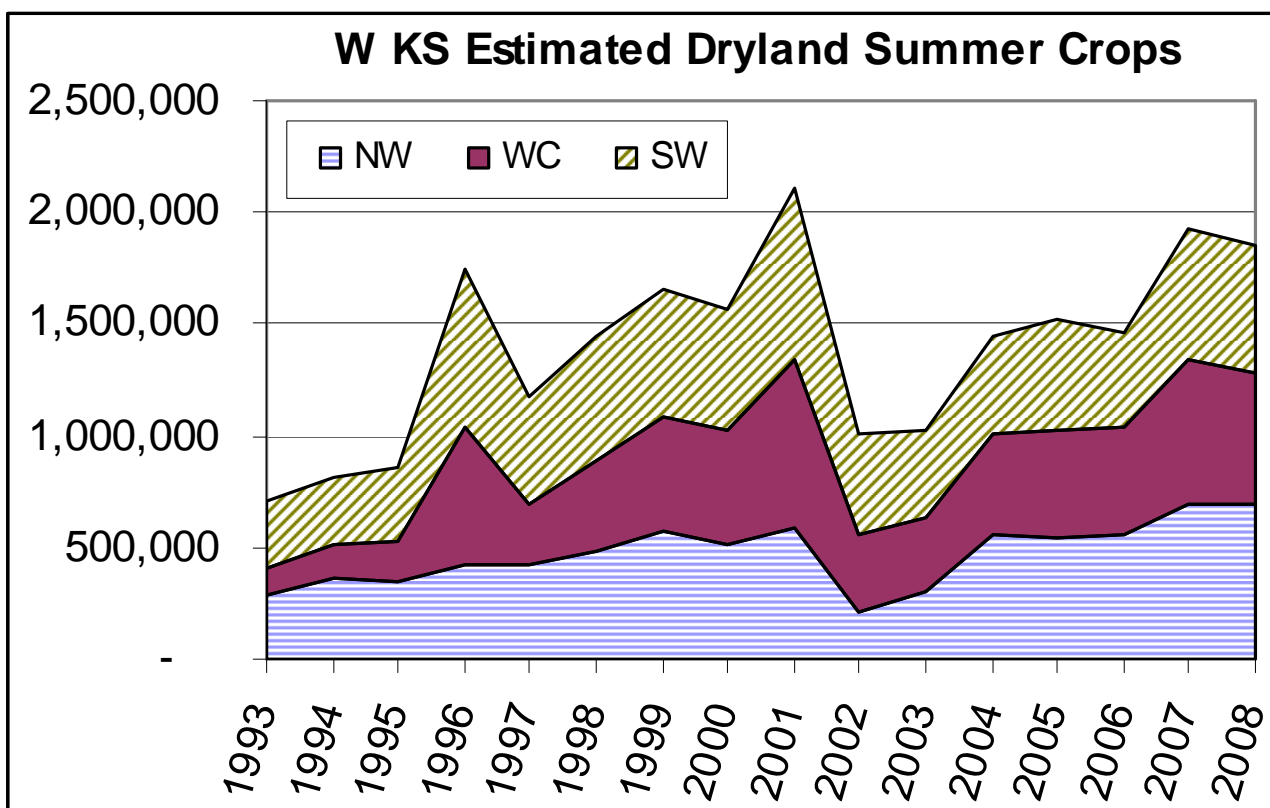


Apr-Sep Precipitation  
 Previous 30 Year Average  
 99/08 – 2<sup>nd</sup> Driest on Record

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## Rotations are Becoming More Crop Intensive



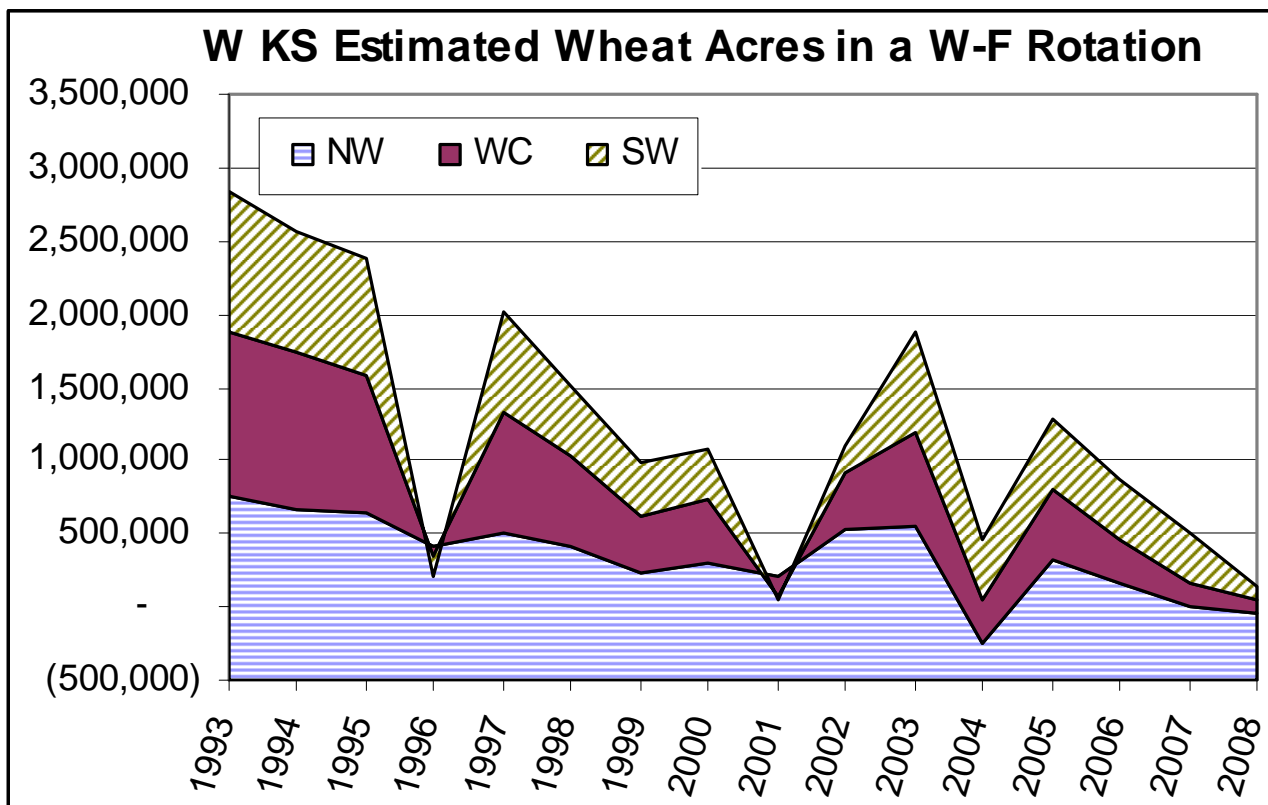
- Sum Of:**
- ✓ **Corn**
  - ✓ **Grain Sorghum**
  - ✓ **All Sunflower**
  - ✓ **Soybeans**

Source: Kansas Agricultural Statistics

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## Fewer Operations are Utilizing the Traditional W-F Rotation



### Why?

- ✓ No-Till
- ✓ Improving Machinery
- ✓ Improving Herbicides
- ✓ Improving Genetics
- ✓ Improving Research

Fallow Wheat Acres less Summer Cropped Acres

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***High LCR's are an Issue:  
RMA Is Asking For Input,  
What Is Our Proposed Solution?***

**Solutions?**

***a) No Insurance on any non-irrigated acreage on which a summer crop was harvested or destroyed after July 1 of the previous year.***

***i.e Insurance available if following wheat or a fallow period but not if following another summer crop.***

***High LCR's are an Issue:  
RMA Is Asking For Input,  
What Is Our Proposed Solution?***

**Solutions?**

- b) Allowing coverage by written agreement only for continuously cropped summer crops.***
- c) No changes but stricter enforcement of Moral Hazard  
i.e. prevent abuses of crop insurance***

***High LCR's are an Issue:  
RMA Is Asking For Input,  
What Is Our Proposed Solution?***

**Solutions?**

***d) Establishing criteria that must be met before coverage would be available.***

***i.e Requiring four years of history of growing a continuous summer crop before coverage is allowed.***

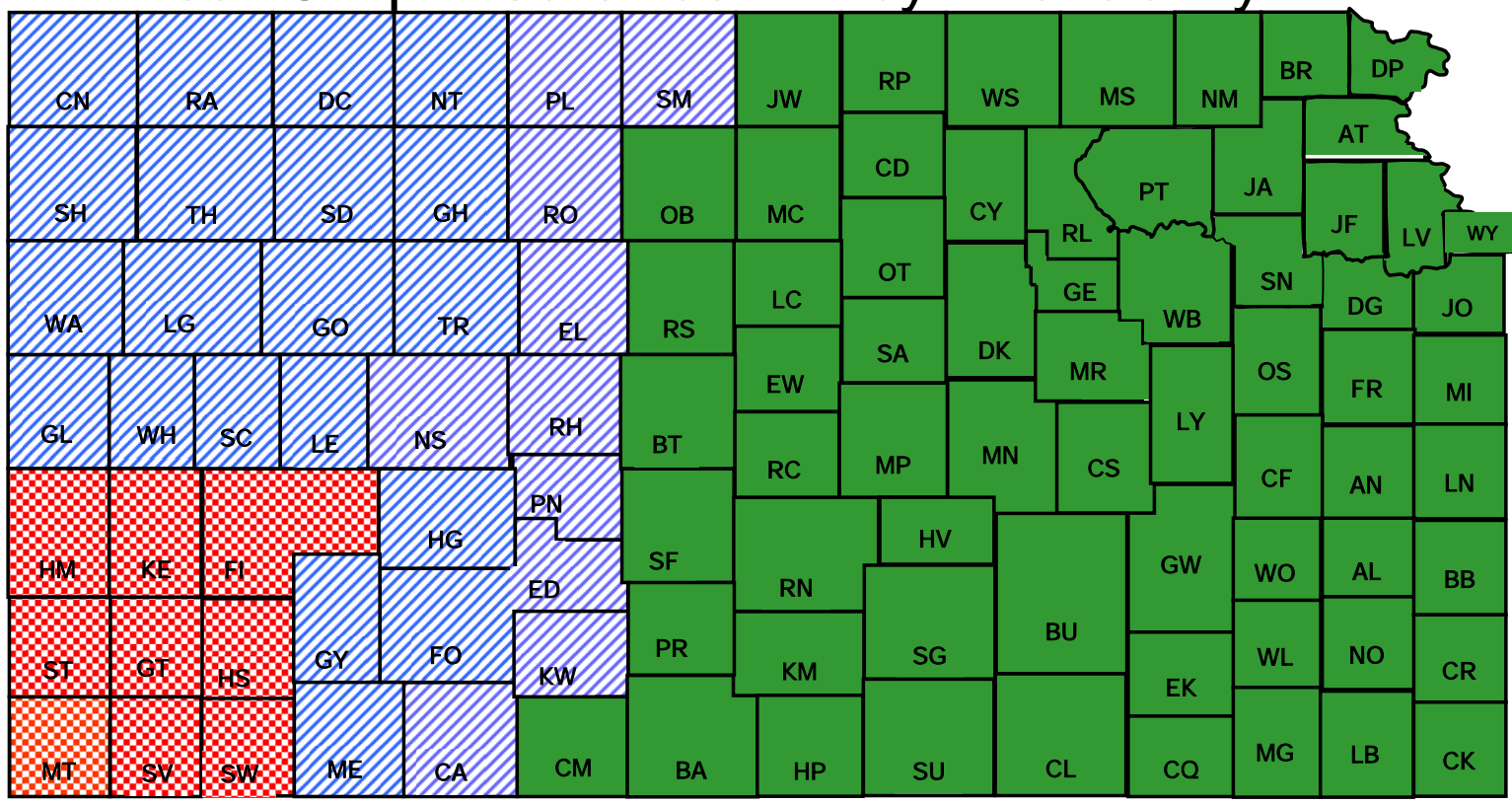
***High LCR's are an Issue:  
RMA Is Asking For Input,  
What Is Our Proposed Solution?***

**Solutions?**

- e) Providing coverage but at different premium rates and APH yields.  
i.e. Following Wheat vs. Continuous  
- Similar to the dual, fallow versus continuous wheat coverage that we have in several Western Kansas counties.***

# Dryland Wheat, Western Kansas

## Wheat Crop Insurance Policy Availability



- Irrigated
  - Summerfallow
- Irrigated
  - Continuous Crop
  - Summerfallow
- Irrigated
  - Non-Irrigated

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***High LCR's are an Issue:  
RMA Is Asking For Input,  
What Is Our Proposed Solution?***

**Solutions?**

***f) Providing coverage but at different  
premium rates and APH yields.***

***i.e. No-Till vs. Conventional Tillage***

***- Potentially more difficult but may  
better address the “most significant”  
factor affecting dryland summer crop  
yields in Western Kansas***

## ***High LCR's are an Issue: RMA Is Asking For Input***

- ✓ ***We know 1999/2008 Is too short of a time period and was unusually DRY.***
- ✓ ***We believe additional research and a “go slow” approach is called for.***



### ***We Need:***

- ✓ ***Your input and ideas.***
- ✓ ***To know what the most flexible, innovative solutions are.***

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- 1) Please complete the rotation survey, we'll tabulate and share the results.**
- 2) As groups, please discuss this issue, rank the potential solutions and record any comments and clarifications you might have.**
- 3) Provide a short report to the audience.**



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***Thank You***

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## ***High LCR's are an Issue: RMA Suspects The Problem Is "Continuous Summer Crops"***

### **Sample County - Corn**

	Acres		Premium	Indemnity	Loss Ratio	LCR's	--- Precipitation ---	
	Insured	Liability					Apr-Sep	%of 30Yr Average
1999	1,612	\$107,191	\$12,097	\$6,201	0.51	0.0579	19.52	120%
2000	1,461	\$94,388	\$11,014	\$77,695	7.05	0.8231 <=	9.37	57%
2001	2,867	\$232,136	\$29,467	\$31,880	1.08	0.1373	15.80	97%
2002	5,091	\$442,766	\$64,673	\$396,225	6.13	0.8949 <=	7.76	47%
2003	7,463	\$735,198	\$126,219	\$455,472	3.61	0.6195 <=	12.90	80%
2004	26,540	\$2,854,837	\$568,748	\$2,331,681	4.10	0.8167 <=	16.64	105%
2005	8,344	\$624,527	\$186,047	\$270,733	1.46	0.4335 <=	16.50	103%
2006	9,254	\$699,037	\$228,601	\$319,670	1.40	0.4573 <=	15.08	95%
2007	6,790	\$802,181	\$300,751	\$126,155	0.42	0.1573	14.29	89%
2008	9,236	\$1,521,499	\$546,517	\$541,450	0.99	0.3559 <=	17.44	110%
<b>AVG</b>	<b>7,866</b>	<b>\$811,376</b>	<b>\$207,413</b>	<b>\$455,716</b>	<b>2.67</b>	<b>0.4753</b>	<b>14.53</b>	<b>90%</b>

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