

NATIONAL CROP INSURANCE SERVICES
8900 Indian Creek Parkway, Suite 600
Overland Park, Kansas 66210

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For more information contact Laurie Langstraat at (913) 685-2767.

Crop Insurance Scores Well in Profitability and Effectiveness Analysis
Independent study by Grant Thornton LLP shows that Federal Crop Insurance Program compares favorably to property and casualty industry

OVERLAND PARK, KS... A study released today by National Crop Insurance Services shows that over a 16 year period (1992-2007) the Federal Crop Insurance Program is significantly *less profitable* than the property and casualty industry and has consistently lower expense-to-premium ratios.

The analysis is the 2008 update of a study prepared last year following a General Accountability Office (GAO) report that was critical of the profitability and costs associated with the Multi-Peril Crop Insurance (MPCI) program. The MPCI program is a public-private partnership jointly managed by 16 designated private companies and the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA).

“One of the key elements of the analysis was that crop insurance averaged 14.7 percent per year in pre-tax net income over the period 1992-2007 whereas the property and casualty industry saw an average annual profitability of 18.6 percent,” said Robert Parkerson, President of National Crop Insurance Services, a trade association for the industry.

These findings are consistent with studies prepared by PricewaterhouseCoopers in 1997 and 1999 as well as a report by Deloitte & Touche in 2004. The study also examines expense ratios, comparing those of the MPCI program with the P&C industry. In each year for the past ten years, the total expense to gross premium ratio for the MPCI program has been under 30 percent. Expense ratios for MPCI are substantially less than expense ratios for the P&C industry when put on a comparable basis.

“What we now have is a solid analysis, covering a 16-year timeframe, including the most recently available data. The agricultural economy is cyclical by nature; and crop insurance is no exception. When examined over a broader time period, which is necessary to evaluate insurance properly, MPCCI profitability is in line with other types of insurance,” said Dr. Keith Collins, former chief economist for the USDA and former Chairman of the Board of Directors of the Federal Crop Insurance Corporation. Dr. Collins is currently serving as a consultant to National Crop Insurance Services.

The new Grant Thornton update also addresses the issue of administrative and operating (A&O) expense reimbursements. Under the current arrangement with the RMA, MPCCI companies are expected to receive full reimbursement for their A&O expenses. However, in 2006, total expenses equaled 24.6 percent of gross premiums while A&O reimbursements received totaled only 20.3 percent. This resulted in a shortfall of \$201.2 million. In 2007, the shortfall grew to \$233.5 million.

The MPCCI program covered \$90 billion of crops in 2008, insuring more than 100 individual crops on more than 271 million acres. Because insured liabilities and premiums are directly linked to expected crop prices, the industry believes that lower crop prices in 2009 will reduce industry revenues compared with 2008.

The Grant Thornton report also examines the issue of risk as a variable in profitability. The report concludes that providing MPCCI coverage entails greater risk than P&C. The report also examines the impact of the 2008 Farm Bill which reduces the rate of reimbursement of allowable A&O expenses and delays payments to MPCCI companies for both A&O expenses and underwriting gains.

RMA’s financial integrity provisions impose stringent surplus requirements on MPCCI companies. These requirements insure that adequate resources will be available in the event of extreme or catastrophic weather events. With the additional regulatory oversight at the state level, the Federal crop insurance program is one of the most regulated insurance programs in the world.

“In this period of financial uncertainty, we want to make sure that the policymakers in Washington understand that our industry is on strong financial footing,” said NCIS President Bob Parkerson. “Crop insurance is at the center of the farm economy – a strong crop insurance program benefits a much broader community. Crop insurance gives the farmer access to financing. And with the volatility in commodity prices we have seen this year, we believe that we will see a growing interest in revenue protection for producers,” Parkerson added.