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Washington Report



**House Recesses - No Disaster Bill**

by Jane Shey, Federal Affairs Representative

To the surprise of many agriculture lobbyists in Washington, the House recessed until after the election without considering a drought disaster bill. As one congressional staffer said, "Congress has been deadlocked on the same issues for the last five months and they just decided to go home."

Supporters of disaster assistance have continued to push for the entire package of \$6 billion in spending.

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**2002: A Roller Coaster Ride For Crop Hail Claims**

by Greg Meek, Farmers Mutual Hail Insurance Company



We are thankful that the 2002 crop hail claims season is finally drawing to a close. It has been an eventful roller coaster ride with both catastrophic highs and mild-mannered lows, depending on where you live in the Midwest. We're going to let you experience the thrills of this year, free of charge! We'll warn you now...this ride might start off slow, but it gets scary at times.

We begin east of the **Mississippi**, where heavy rains significantly delayed the planting season in **Indiana, Ohio,** and **Michigan**. The early hailstorms found almost no crops emerged, resulting in very few claims being reported. It was mid to late June hailstorms that accounted for most of the damage in these three states, but September also ushered in a few shatter losses on soybeans. All in all, a quiet year for hail losses in the eastern states.

**Illinois** and **Wisconsin** were also spared from widespread hailstorms in 2002. Southern Illinois did experience an early season hailstorm that dealt heavy damage to many acres of winter wheat, but overall, it was generally spotty. Both states registered exceptional loss ratios.

As we head north, the ride gets bumpy! **Minnesota, South Dakota,** and **North Dakota** all experienced a heavy crop hail loss season. South Dakota suffered a severe storm on July 28 that started just east of Huron and angled southeast and east into Minnesota. It resulted in miles of total crop destruction. Not a pretty view. Southeast Minnesota did have a good year with very few hail claims, but northern Minnesota witnessed a horrendous year with 19 different storm dates.

Now would be a good time to hold on for dear life. North Dakota rocketed to a dangerously high loss ratio this year that again exceeds 130%. It was an August 1 storm that caused the

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## CIRB MEMBER COMPANIES TO BE FEATURED

*In this issue and those which follow, we will introduce you to a CIRB member company. This issue's featured member is American Agricultural Insurance Company of Park Ridge, IL.*



**American Agricultural Insurance  
Company Home Office**



**American Agricultural Insurance Company**

In December 1946, during American Farm Bureau Federation's annual meeting, the voting delegates authorized the formation of a reinsurance company. Seventeen months later, in May 1948, American Agricultural Insurance Company opened its doors for business. Originally located in downtown Chicago, the company moved to its current location in Park Ridge, Illinois in September 1972.

American Ag was initially chartered as a stock company, converted to a mutual in 1954 and then reconverted into its current form as a stock company in 1968. The stock is held by AFBF and the state Farm Bureau property/casualty insurance companies. Virgil H. Applequist was named the company's eighth general manager in 1991, and currently still serves in that role.

The company began by reexamining its mission statement and operating principles. Until that time, the company's focus had been mainly reinsurance programs with little flexibility in structure. The resultant new mission statement says, "We exist to assist the Farm Bureau insurance companies achieve financial stability and growth through a long-term partnership based on mutual integrity and trust". While reinsurance remains the company's primary service, this statement signaled a willingness and desire to expand operations and offer more program options with greater flexibility.

The first opportunity for expansion came in January 1999, when the company learned of Nationwide Group's desire to sell their assumed reinsurance business. With the Board's approval, this opportunity was pursued, and in the spring of 1999 the Columbus, Ohio office of American Ag began writing reinsurance business from companies other than Farm Bureaus. It has proven a valuable addition with good profits, additional exposure to other markets, and a staff (currently about twenty) that fit perfectly into the Farm Bureau culture. American Ag's employees now number 79.

Soon after the Nationwide purchase, American Ag began to consider setting up an offshore reinsurance company exclusively for Farm Bureau use. This would provide more competitive pricing and

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Member of



## Feature CIRB Member Company

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stability for certain reinsurance protections than could be found in the traditional marketplace. Parkwood Re came into being in mid-2000, and many Farm Bureau companies (including American Ag) are now purchasing coverage from Parkwood.

In 2000, another opportunity arose to assume a large portion of a personal lines book of business originating in Quebec, Canada. American Ag now has a quota share arrangement with one of the companies in the Co-operators Group, Canada's second largest property and casualty market.

Although the company expended a great deal of time and energy over the past few years on the above ventures, they have not lost sight of their primary mission. We continue to strive for ways we can "...assist the Farm Bureau insurance companies achieve financial stability and growth through a long-term partnership based on mutual integrity and trust", whether this be additional services or flexible and new reinsurance coverage options.

The company's representative on the CIRB Board of Directors is Jim Aldeman.

## Photo Ops . . .



**CIRB PAC Golf Fundraiser**  
All Smiles, Even After Less than Stellar Scores!

*Front Row (L-R): Pat Duncan, Julie Gibson, Noel Sylverster, Mike Shafar;*  
*2nd Row: Richard Bill, Shawn Simpsen, Dale Chuha, Don Gerndt;*  
*Back Row: Mike Sieben, Oscar Deardorff, Paul Beezley, John Rahman, Steve Rutledge, Larry Rosenthal and Jim Aldeman.*



**FCIC Board of Directors**

*From L-R: FCIC Manager Ross J. Davidson, Jr., Christopher R. Watt, John B. Askew, Agriculture Secretary Ann M. Veneman, Timothy M. Kelleher, Susan Penix Fitzsimmons, Roger Swartz, Frank Bedford Jones, Jr., USDA Chief Economist Keith Collins, and Undersecretary of FFAS J. B. Penn.*



## Lingering Drought

by Robert C. Balling Jr., Ph.D.  
Arizona State University

This year's serious drought has given many of us cause to worry. Higher atmospheric carbon dioxide concentrations do promise a greener earth, but in times of high temperature and low precipitation, we may observe that what should be getting greener is getting browner. So long as carbon dioxide levels rise along with temperature, however, plants should be able to adapt, as three recent articles attest. In each, it is clear that worldwide, CO<sub>2</sub>-enhanced plants enjoy more water-use efficiency and better overall tolerance to drought.

In China, a team of scientists grew spring wheat at natural and doubled atmospheric CO<sub>2</sub> concentrations in both well-watered and poorly watered soil conditions. Lin and Wang concluded that "The results indicated that doubled CO<sub>2</sub> would enhance antioxidant systems to increase the tolerance to drought stress, and this effect was stronger in the cultivars, which are more sensitive to drought under ambient CO<sub>2</sub>." Or more to the point, they concluded "Plants grown under doubled CO<sub>2</sub> would be better in overcoming drought stress."

In the United States, a pair of scientists from Texas A&M and Cornell grew beans at CO<sub>2</sub> concentrations ranging from natural to four-times-natural levels. Jifon and Wolfe found that increasing CO<sub>2</sub> levels caused photosynthetic rate to increase by up to 100 percent, while stomatal conductance decreased by as much as 50 percent. The increase in total dry mass coupled with the lower conductance levels again yielded an increase in the beans' water-use efficiency.

A team of scientists from the Netherlands and Denmark focused their attention on climate events that occurred 8,200 years ago. Wagner and colleagues made extensive use of a widely employed equation that ultimately relates stomatal density and atmospheric CO<sub>2</sub> levels. The team found fossilized birch leaves in lake deposits in Denmark and determined that when CO<sub>2</sub> levels were relatively low, the stomates-which are essentially pores through which plants breathe-opened wider both to take in CO<sub>2</sub> and to allow water out via transpiration. Conversely, when CO<sub>2</sub> levels were relatively high, stomatal openings were smaller, thereby cutting down on transpiration. Even 8,000 years ago, a 25-parts-per-million variation in atmospheric CO<sub>2</sub> caused variations in water-use efficiency consistent with results from field and chamber experiments ongoing throughout the world.

Wheat, beans, and ancient birch leaves all tell us the same thing: Elevated CO<sub>2</sub> will substantially improve the water efficiency of plants thereby protecting them against future droughts or higher aridity levels.

For more information, check out the [World Climate Report](http://www.greeningearthsociety.org/climate/) website at:

<http://www.greeningearthsociety.org/climate/>



**Dr. Balling will be a featured speaker at CIRB's  
Annual Meeting in February.**



## Roller Coaster Ride For Crop Hail Claims- *continued from cover*

most extensive damage in southern North Dakota and northeast North Dakota followed right along with storms on August 14, 16, 24, 25, 26, 30, and 31. Numerous claims exceeded \$25,000 in this area of the state.

We'll give you a bit of a breather as we head south to [Missouri](#), [Oklahoma](#), and [Arkansas](#). Things were quiet here in 2002. All three states will see excellent loss ratios.

Out west in [Colorado](#), [Kansas](#), and [Nebraska](#), the crop hail claims experience varied considerably. Usually the hail starts early and ends late in Colorado, but due to an extreme drought, hail activity was limited. Most of the activity occurred in mid to late summer. Colorado will finish with another great year.

Nebraska had three major storms: June 12, July 25, and October 1. On June 12, a severe storm cut across Buffalo, Kearney, Polk, Butler, and Seward counties. This storm left small soybeans and nine to eleven leaf corn totally destroyed. On July 25, Dakota County was hit hard, leaving numerous corn and soybean fields 100% defoliated and destroyed. Western Nebraska also saw several small pockets of hail damage. Despite all that, the state still should have a profitable year.

Kansas is another story, however. Even with a severe drought, it still managed to hail. Multiple storms passed through the northwest and on to the south central region of the state in the second week of June. Due to these storms, it looks like Kansas will be one of those unprofitable highs of this ride.



Finally, we reach [Iowa](#), which experienced an average year for hail claims. It was the timing of the storms that was quite unusual. Here are the twists and turns of the ride. Most storms in Iowa usually occur in the months of May and June, but in 2002, they occurred in August, September, and October. When this happens, unfortunately, damages are usually higher. This is the third consecutive year that Iowa has been hit with severe late season hailstorms.

The first major storm occurred in northern Iowa on June 19 in the Mason City area. Corn and beans were severely damaged. August 16 and September 18 in northwest and west central Iowa produced claims that totaled corn and beans in some locations. The final major storm on October 1 started in the Sioux City area and traveled 120 miles to Algona and north central Iowa. Many bean fields were totally shattered and, in some cases, corn was shelled from the cob. Even with all that, it still looks like a break even year for Iowa.

Well, we've come to the end of a ride that had a wide range of experiences and loss ratios for the year from state to state - all the way from excellent to horrible. In the end, it looks like a break even year with the possibility of a slight underwriting profit.

Are you ready to go again?

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## House Recesses - No Disaster Bill - *continued from cover*

The White House has demanded offsets to pay for the assistance. Unlike the farm bill, when they changed their tune half way through the debate, this time they did not back down.

Questions remain on the political fallout of the decision by the White House. Theoretically, disaster assistance could be considered during a lame duck session but would not provide the Election Day boost that many candidates hoped for.

The disaster bill is also credited with stalling further tax cuts that many Republican lawmakers hoped for. The White House could not demand budget offsets of a disaster bill without applying the same standard to the tax bill. So a number of controversial and expensive issues remain for the post-election session.

The lame duck session may produce a compromise on FY03 appropriations bills but will probably be gridlock as usual and will not include disaster assistance to farmers.

### New Disaster Bill Introduced

Rep. Sam Graves (R-MO), a member of the House Agriculture Committee, introduced The Companion Disaster Assistance Program Act of 2002 (CDAP), legislation that incorporates many of the principles and recommendations for crop insurance reform advocated by the National Corn Growers Association (NCGA). According to NCGA, HR 5589 if adopted, would provide more equitable aid for crop insurance participants and those producers who have been hurt by substantial losses from severe drought and floods.

The purpose of this legislation is to compliment the crop insurance program by covering a portion of the uninsurable deductible rather than duplicating the insurance coverage under traditional disaster assistance. The budget cost for this legislation is \$2.93 billion.

### FY02 Deficit \$157 Billion

The Congressional Budget Office (CBO) recently said that the FY02 deficit resulted from "the largest drop in revenue in over 50 years and the largest percentage growth in spending programs and activities in 20 years." The CBO said that outlays rose by an estimated \$148 billion compared with last year, an increase of 7.9 percent, while receipts fell by \$137 billion, a drop of 6.9 percent. CBO said the revenue decline "was the largest year-over-year percentage drop since 1946."

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## GEORGIA FARMER INDICTED FOR CROP INSURANCE FRAUD

On September 16, 2002, Leon Norman of Moultrie, Georgia, was indicted on a charge of theft by deception for filing a false crop insurance claim. According to the Risk Management Agency (RMA), Eastern Regional Compliance Office, the claim resulted in improper payments totaling nearly \$40,000.

The indictment resulted from an investigation by RMA and the Georgia Bureau of Investigation. This is the first time RMA and a State Bureau of Investigation have collaborated to produce an indictment. The agencies investigated allegations that Norman, doing business as Normco Land Management, used false yield and acreage reports to claim an insurance loss. Some of these records were also used to take advantage of programs administered by the Colquitt County Farm Service Agency (FSA). RMA continues to investigate other facets of the case, including the involvement of others.

## HATCH NAMED AS RMA ASSOCIATE ADMINISTRATOR

### *Will Oversee New Products*

Washington, DC, October 25, 2002 -- Risk Management Agency (RMA) Administrator Ross J. Davidson, Jr., announced the appointment of David C. Hatch as the Associate Administrator of USDA's Risk Management Agency. Hatch joins Byron Anderson as one of two RMA Associate Administrators.

"David will be primarily responsible for overseeing the development and evaluation of new products within the guidelines established by the FCIC Board of Directors," said Davidson. "His many years as a risk manager in the private sector will be invaluable as we chart a strategic new direction in product development."

Hatch has over 14 years of experience providing outsourced risk management and claims management services to large corporations. As the risk manager for several multi-billion dollar corporations, he was responsible for identifying risk exposures and designing, negotiating and implementing innovative and effective programs to eliminate, minimize, or transfer potential loss exposures. In doing so, he has worked with many domestic and international insurers, reinsurers, and agents/brokers.

Additionally, Hatch has over 7 years' experience in human resources with Aetna Life and Casualty including diversity, employee development, organization development, recruiting, and replacement planning.

Originally from California, David has also lived in Connecticut, Ohio, and Texas. He has been married 27 years and has three grandchildren.



## Rio Rico, AZ for CIRB 2003 Annual Meeting

The 2003 CIRB Annual Meeting will be held at the beautiful Rio Rico Resort south of Tucson, AZ. We have lots of special activities planned from theme receptions to a unique group tour. Of course, dynamic speakers and panel presentations mark the Monday through Wednesday morning business sessions.

Anyone interested in the crop insurance program, whether you are a company executive, reinsurer, reinsurance broker, lender, agent, adjuster or spouse, is welcome to attend.

All events are strictly casual so that you can kick back and relax.

Check out our website at [www.cropinsurance.org](http://www.cropinsurance.org) for more updates.

### Tentative Program

Saturday, February 22	"Not Just for Golfers" Reception
Sunday, February 23	CIRB Annual Golf Outing Spouse/Guest Breakfast "Margaritaville" Reception
Monday, February 24	General Session I Group Tour "Arizona Sundown" Reception
Tuesday, February 25	General Session II "Law and Order" Reception
Wednesday, February 26	General Session III CIRB Annual Business Meeting Executive Committee Meeting

**Registration material to come soon.**

## CIRB CALENDAR

### 2002

**Nov. 4**                    **RMA/Industry Meeting**  
                                  **Kansas City, MO**

**Nov. 13-14**            **NCIS Spring Update**  
                                  **Kansas City, MO**

### 2003

**Feb. 22-26**            **CIRB Annual Meeting**  
                                  **Rio Rico, AZ**

### 2004

**Jan. 24-28**            **CIRB Annual Meeting**  
                                  **San Diego, CA**



## Briefly . . .

✦ *DuWayne Kinne of Square Deal Division of Nationwide Insurance has assumed chairmanship of the CIRB Education & Research Committee . . . DuWayne had been serving as vice chairman but moved up when chairman Ken Scott stepped down. Ken had been chairman since 2000 . . .*

✦ *"It's been so dry the past three years that we have fish in our pond who haven't learned how to swim yet!" Nebraska farmer on the drought situation on his farm . . .*

✦ *Due to the high level of interest and requests for additional time, RMA is extending the comment period on a proposed rule to change the common crop insurance policy. The new deadline is November 12, 2002. The original deadline was October 18. . .*

✦ *The U.S. is losing farmland to development at the rate of two acres every minute! The land we are losing is also some of the most fertile and productive . .*

✦ *Former CIRB chairman, Jack Clanton, has been appointed CEO of the Insurance Education Foundation . . .*

## FEDERAL CROP INSURANCE DATA

### Combined Business 2002 vs. 2001

(as of October 28, 2002 - in \$billions)

Category	2002	2001
Total Premium	\$2.92	\$2.96
Subsidy	\$1.74	\$1.77
Subsidy as a % of Premium	59.6%	59.8%
Total Liability	\$37.3	\$36.7
Losses Paid	\$1.47	\$1.68
Loss Ratio to Date	54%	57%
Estimated Year End Losses	\$4.10	\$2.95
Estimated Year End Loss Ratio	140%	100%

