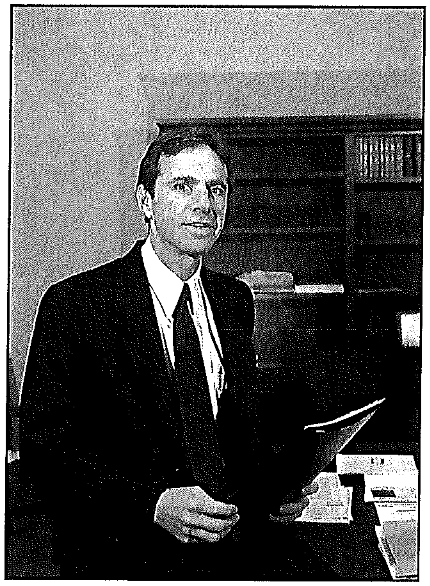
FEATURE

AGRI FINANCE INTERVIEWS: Kenneth D. Ackerman

Manager, Federal Crop Insurance Corporation (FCIC)

Ken Ackerman, new FCIC head in Washington, D.C., was born in Albany, N.Y., has a B.S. degree from Brown University and a law degree from Georgetown University. An expert on the futures market, he was legal counsel at the Commodity Futures Trading Commission (CFTC) for seven years, and helped write the portion of the 1990 Farm Bill dealing with crop insurance.

Last year, as a key member of the Senate Agriculture Committee staff, Ackerman helped develop crop insurance legislation connected with the 1993 Omnibus Budget Reconciliation Act (OBRA).


Kenneth D. Ackerman, FCIC.

Q. With the national debate underway for major reforms in health care and welfare, is now the right time to propose a sweeping overhaul of our nation's crop insurance program?

A. Absolutely. Federal crop insurance must change. Reform is being demanded by farmers, U.S. taxpayers and Congress. Secretary of Agriculture Espy has made this reform one of his top priorities.

Q. Specifically, what major changes do you feel are needed?

A. We must make crop insurance fiscally sound, more farmer-friendly, and end the conflict between crop insurance and ad hoc disaster relief bills.

Q. How do you make FCIC financially sound?

A. Since 1980, FCIC has had a history of losing money. The average "loss ratio" has been \$1.47 – that's \$1.47 paid out in claims for each \$1.00 paid in premiums. A private company with these kinds of numbers would have gone bankrupt years ago.

"Many farmers assume there will be disaster payments."

Q. So what's the game plan?

A. We worked with Congress in OBRA 1993 to require FCIC to improve its loss ratio by October 1995 to 1.1. This shall save \$500 million over five years without disrupting basic benefits.

Q. This sounds good, but give us some details and examples.

A. We've already taken some very specific actions. For instance, the new 1994 requirements for Actual Production History Program (APHP) records will make this crop insurance more attractive to good producers.

Coverage extensions for delayed and prevented planting are now a standard feature rather than an extra-cost option. We've identified high risk farmers and counties. We expect private companies to assume more risk. The 1.1 ratio is critical to establishing our credibility with Congress and taxpayers.

Q. You used the word "farmer friendly". Would you explain its meaning?

A. As the new manager of FCIC, one of my top priorities is to talk and visit with as many farmers as possible throughout the country about their suggestions and concerns first-hand ... rather than to have this information eventually filter up to me in Washington.

Q. Hasn't lack of farmer participation been one of the big problems all along? What percent of farmers carry crop insurance now?

A. Only about a third. Many farmers don't buy crop insurance because they assume that if there's a major flood or drought Washington will step in with crop disaster payments.

Q. This leads us to the conflict you mentioned earlier between crop insurance and ad hoc disaster bills to protect farmers. Doesn't Congress budget for natural disasters?

A. Not really, and that's part of the problem. Disaster aid is "off budget". During the past 10 years, disaster bills have cost an average of \$900 million each year, but during the last five years, the average rose to \$1.5 billion. Taxpayers face just as much uncertainty as farmers from these ad hoc programs, and their concerns are magnified during times like today when budget deficits are so high.

Q. What about the Great Flood of 1993, Hurricane Andrew in 1992 and one of the worse droughts ever in 1988? How do these fit into the equation?

A. We've seen an unprecedented parade of natural disasters in recent years. Farmers need protection now like never before – and they realize it.

Unfortunately, just at the time that we face more risk we have to address it with less money. The Federal budget, including USDA's, is being squeezed as American taxpayers demand less debt.

Q. So are ad hoc disaster bills politically motivated?

A. In seven of the last eight years when a crisis struck, Congress and three different presidents acted to pass ad hoc disaster bills to protect farmers because times were very tough and because many farmers had not bought Federal crop insurance. FCIC's participation rate has not been high enough.

Q. But haven't the disaster bills saved farmers?

A. Yes, they did, but a farmer who doesn't carry crop insurance and depends on ad hoc disaster aid has no way of knowing in advance whether a relief bill will be passed, or what the disaster payment will be. He or she must wait to see if the loss is broad enough to generate enough political support for relief.

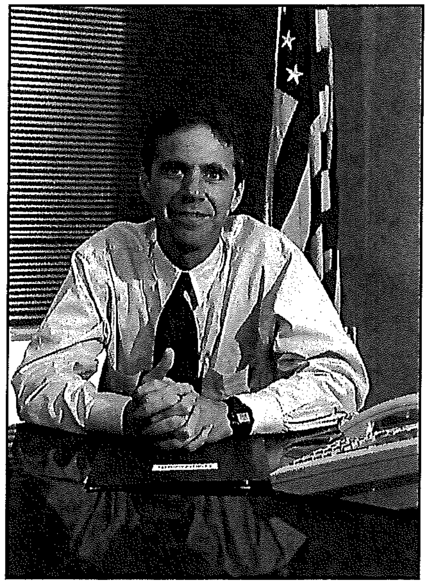
Farmers hit by Hurricane Andrew received aid at 50% proration, while farmers hurt by last year's flood got 100% proration. If there is another disaster in 1994, farmers have no way of knowing today whether there will be a relief bill – or whether it will be fully funded. Our goal is to merge crop insurance and disaster aid into one unified program.

Q. A new catastrophic coverage level available to all farmers is a centerpiece of the reform bill being considered. Can you give us some details?

A. The idea is to make this coverage economical, accessible and appealing. Catastrophic coverage will pay for about 50% of yield at 60% of price – an amount comparable to aid under ad hoc disaster programs over the past few years. The difference is this coverage is a binding legal contract. A farmer can take it to the bank as collateral on a loan.

Q. What will catastrophic coverage cost?

A. It is expected that it will be available to all farmers for a nominal processing fee of $50 per crop per county, up to $100.



"American taxpayers demand Federal debt reduction."

Q. But won't most farmers want additional coverage?

A. We will provide targeted subsidies for these higher coverage levels. Out-of-pocket cost at the 65% or 75% yield levels could fall by about 10%. It's clear that the more farmers buy higher levels of coverage, the more fiscally sound the system will be.

Q. What happens to private insurance companies in all of this?

A. Under the idea being discussed, farmers may obtain catastrophic coverage either through a private company or through our proposed Farm Services Agency. Higher coverage will remain available only through private insurers.

Q. How do you get farmers to participate in this new program?

A. We will link crop insurance coverage at the catastrophic level or above to participation in Federal commodity programs or FHA loans. Participation will increase nationally from 33% to 80%. If disaster strikes, the bulk of U.S. farmers will be protected.

Q. Aren't you forcing farmers against their will to take out crop insurance with this plan?

A. Crop insurance will be linked to the programs I've mentioned, but we feel this approach is fair because of the low cost of the catastrophic coverage, and in return, farmers gain security. We are also being fair to the private insurance industry as it is a key part of the delivery system.

Q. Isn't this new program going to be extremely expensive?

A. The cost of new catastrophic coverage, the targeted subsidies for buy-ups, and the new standing disaster programs for uncovered crops will be almost $1 billion per year. However, this is less than the $1.5 billion now paid for ad hoc disasters.

Q. How will Congress react to all of this?

A. Before Congress passes this bill, we must convince them that the program will work. We believe that once the new catastrophic coverage is in place, ad hoc relief bills will not be needed because farmers will be effectively protected under the new catastrophic insurance umbrella in the event of disaster.

Q. Do you really think your new reform bill has a real chance of being passed by Congress?

A. If passed, I feel we will have a better overall crop insurance program for U.S. farmers, one more responsive to taxpayers, and a plan offering good opportunities for private crop insurance agents and companies as well. The bottom line is we have no choice but to go forward. AF