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CARe - Crop Insurance Panel Discussion

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Philadelphia, PA
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Agenda

- US Crop Insurance Classes of Business
- Multi-Peril Crop Insurance Historical Perspective
- Government Subsidized Program
  - Standard Reinsurance Agreement
  - Comparison of 2005 vs 2011
  - Proportional vs Non-Proportional Reinsurance
  - Assigned Risk Fund
  - Commercial Fund
- Crop Hail
- Private Reinsurance
  - Quota Shares
  - Excess of Loss/Aggregate Covers
  - Industry Loss Warranty (ILW)
  - Price Cover
- Why Crop Insurance?

U.S. Crop Insurance
Three Classes of Business

Government Sponsored

- MPCI (Multiple Peril Crop Insurance)
  - Government supported program.
  - Rates, policy forms, underwriting guidelines and loss adjusting procedures are all established by the Federal Crop Insurance Corporation (FCIC), part of the USDA's Risk Management Agency.
  - FCIC offers attractive inuring reinsurance protections.
  - The policy is "Yield" or "Revenue" based covering "All Perils."

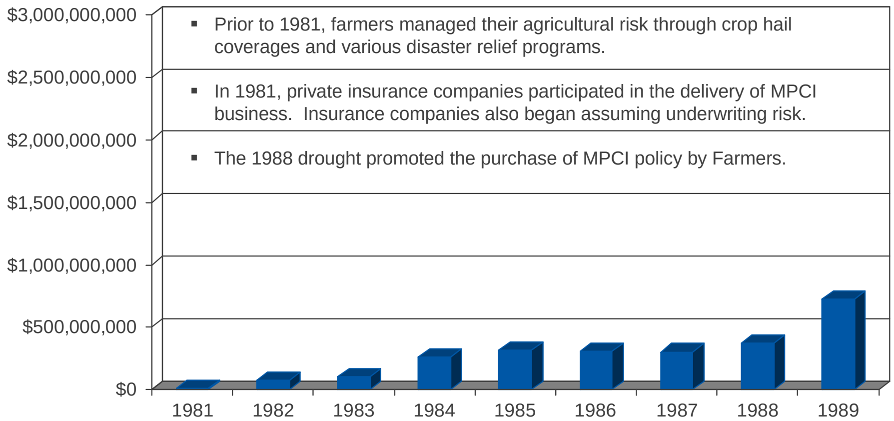
Private Market

- Crop Hail
  - Traditional crop insurance that has been around since the early 1900's.
  - Policy covers only Hail and Allied Coverages.
  - Policy structured as a "percentage of insured value" basis.
- Named Peril
  - Single peril coverage on specific crops or MPCI Add On / Deductible Protection.

Multiple Peril Crop Insurance (MPCI) Historical Perspective

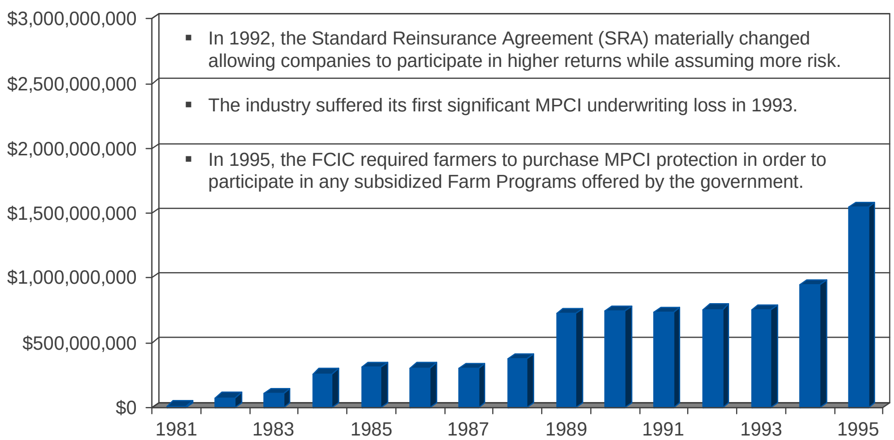
MPCI
Historical Perspective – "The 1980's"

- Prior to 1981, farmers managed their agricultural risk through crop hail coverages and various disaster relief programs.
- In 1981, private insurance companies participated in the delivery of MPCI business. Insurance companies also began assuming underwriting risk.
- The 1988 drought promoted the purchase of MPCI policy by Farmers.



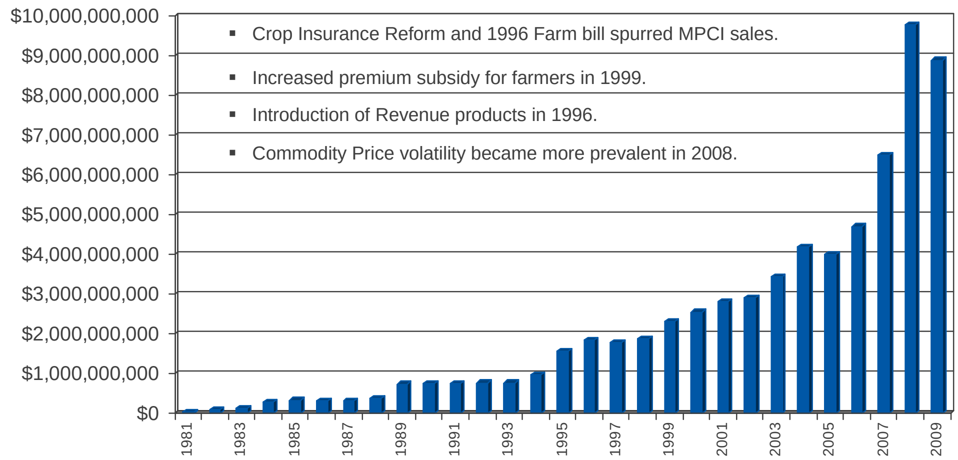
MPCI
Historical Perspective – "Early 1990's"

- In 1992, the Standard Reinsurance Agreement (SRA) materially changed allowing companies to participate in higher returns while assuming more risk.
- The industry suffered its first significant MPCI underwriting loss in 1993.
- In 1995, the FCIC required farmers to purchase MPCI protection in order to participate in any subsidized Farm Programs offered by the government.



MPCI

Historical Perspective – “Late 1990’s through 2000’s”



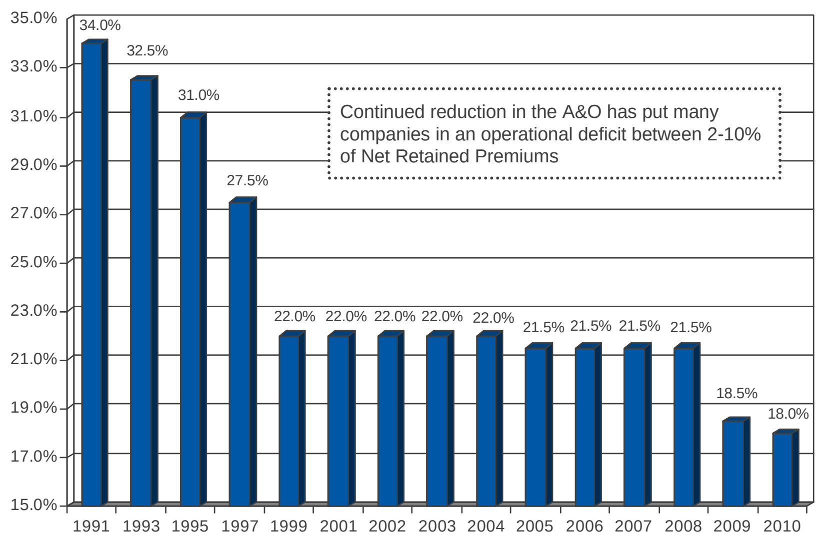
MPCI Government Subsidized Program

MPCI Government Subsidized Program

- Standard Reinsurance Agreement (SRA) is a Contract between the Government (FCIC) and the private insurance company, Approved Insurance Provider (AIP).
- Subsidized Primary Insurance Policy
  - 35% to 65% of premium is paid for by FCIC.
- Acquisition Costs (Administrative & Operating Subsidy – A&O)
  - The government (FCIC) reimburses the ceding company for expenses related to the production of servicing the MPCI business.
  - The reimbursement varies by coverage type.

MPCI Government Subsidized Program

FCIC A&O Reimbursement Summary



MPCI Government Subsidized Program

- RMA’s primary administrative costs
  - Rate & Underwriting development
  - Compliance
  - Ceding Company oversight
  - Claims management procedures

- Reinsurance
  - FCIC offers attractive proportional and non proportional reinsurance protections.
  - This protection allows ceding companies to accept all policies purchased by a farmer; allows companies to retain the profitable business and cede the undesirable business to the government.

2011 Standard Reinsurance Agreement

2011 Standard Reinsurance Agreement (SRA)

Goals of RMA

1. Align Administrative and Operating (A&O) subsidy to insurance company's actual delivery costs
2. Ensure continued producer access to these important risk management tools
3. Provide a reasonable rate of return to insurance companies
4. Protect producers from higher costs while equalizing reinsurance performance across states to more effectively reach underserved producers, commodities and areas.
5. Simplify provision to make the SRA more understandable and transparent
6. Enhance program integrity.

Implemented changes

- A&O Reduction
- Eliminated Assigned Risk Fund and Establish Residual Fund (National Pool)
- Eliminated Developmental Fund
- Introduced State Groups to encourage participation outside of historically profitable Midwest to underserved states.
- Changed SRA's Profit/Loss Sharing parameters

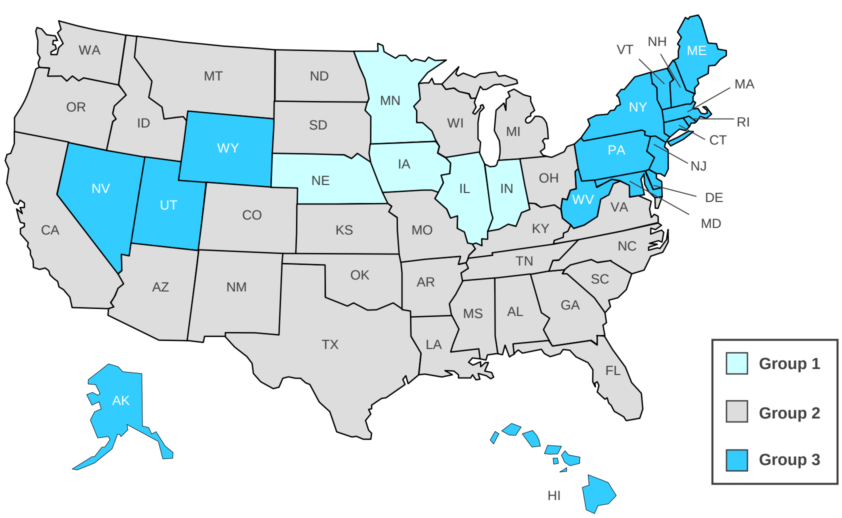
Standard Reinsurance Agreement (SRA)
A&O Subsidy Reductions since 2008

- 2008 (Pre Farm Bill) A&O: 20.50%
- 2009 (Post Farm Bill) A&O: 18.50%
- 2011 SRA A&O: 16.25% (1.3B / 8B)
- Soft Agent Commission Cap of 80% at the state level. Additional contingent commission ("compensation") up to 100% of A&O on by state basis net after reinsurance.
- Starting for the 2011 crop season, the 2008 Farm Bill includes a delayed payout of the A&O and underwriting gain. The A&O payment has been pushed out to the Fall of the same crop season with the settlement of the underwriting gain being extended into October of the following crop season.

Standard Reinsurance Agreement (SRA)
Proportional Reinsurance "A"

2005 SRA	**2011 SRA**
▪ Assigned Risk Fund – Company's less desirable business - "Social Fund." – FCIC sets cession limits by state, based on loss history. – 75% to 85% of the business is proportionately ceded to FCIC. ▪ Developmental Fund – Accommodates business where "uncertainty" exists or where Assigned Risk limits are exceeded. – Up to 65% of gross premiums can be ceded to FCIC. ▪ Commercial Fund – Accommodates a Company's most profitable business. – Highest profit potential and highest risk potential. – Up to 50% of gross premiums can be ceded to FCIC.	▪ Assigned Risk Fund – Maximum assignment per state shall not exceed 75% of the Company's total premium. – Company to retain a fixed 20% subject to the SRA non-proportional reinsurance. – Calculated on a by state basis. ▪ Developmental Fund – Eliminated ▪ Commercial Fund – States designated into (3) groups: – Group 1 = Most Profitable – Group 2 = All Other – Group 3 = Underserved ▪ Other Changes – Elimination of Buy Up, Catastrophe and Revenue Funds by State within the Commercial and Developmental Funds.

Standard Reinsurance Agreement (SRA)
State Groups under 2011 SRA



Standard Reinsurance Agreement (SRA)

Non Proportional Reinsurance - Gain / Loss Sharing Parameters

2005 SRA - Maximum Possible Underwriting Loss (MPUL): 197.09% (2009 Industry Premium)

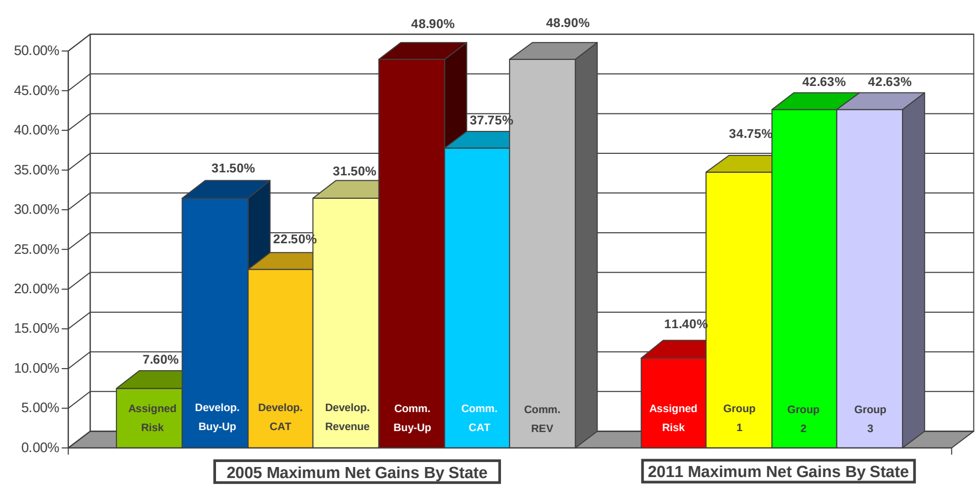
Individual State Loss Ratio	Assigned Risk	Developmental Fund			Commercial Fund		
		Buy Up	Cat	Revenue	Buy Up	Cat	Revenue
0.00%	2.00%	6.00%	4.00%	6.00%	11.00%	8.00%	11.00%
50.00%	9.00%	50.00%	30.00%	50.00%	70.00%	50.00%	70.00%
65.00%	15.00%	60.00%	45.00%	60.00%	94.00%	75.00%	94.00%
100.00%	5.00%	25.00%	25.00%	30.00%	50.00%	50.00%	57.00%
160.00%	4.00%	20.00%	20.00%	22.50%	40.00%	40.00%	43.00%
220.00%	2.00%	11.00%	11.00%	11.00%	17.00%	17.00%	17.00%
500.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

2011 SRA - Maximum Possible Underwriting Loss (MPUL): 166.36% (2009 Industry Premium)

Individual State Loss Ratio	Assigned Risk	Commercial Fund		
		SG 1	SG 2	SG 3
0.00%	3.00%	5.00%	5.00%	5.00%
50.00%	13.50%	40.00%	40.00%	40.00%
65.00%	22.50%	75.00%	97.50%	97.50%
100.00%	7.50%	65.00%	42.50%	42.50%
160.00%	6.00%	45.00%	20.00%	20.00%
220.00%	3.00%	10.00%	5.00%	5.00%
500.00%	0.00%	0.00%	0.00%	0.00%

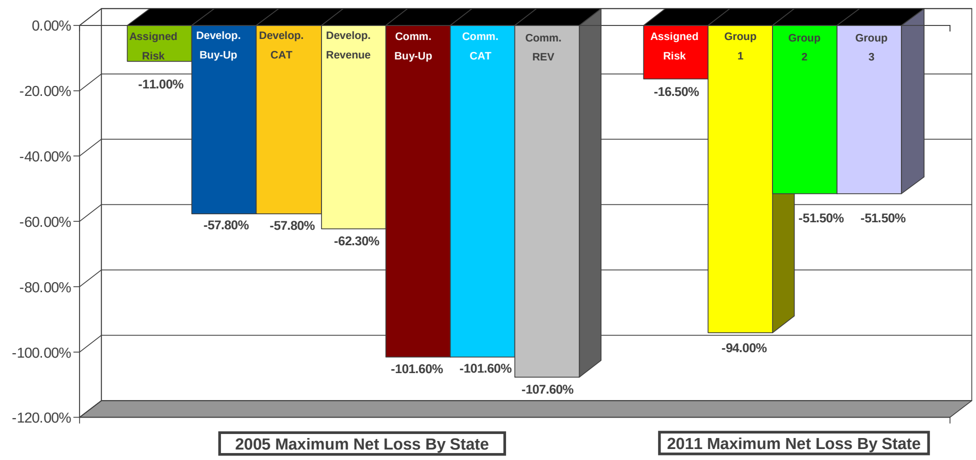
Standard Reinsurance Agreement

Non Proportional Reinsurance – 2005 & 2011 Maximum Net Gains by State



Standard Reinsurance Agreement

Non Proportional Reinsurance – 2005 & 2011 Maximum Net Loss by State



Standard Reinsurance Agreement (SRA)

Restated Results

2005 SRA vs. 2011 SRA

	2009 Industry Premium					
	2005 SRA		2011 SRA		2011 Draft less 2005 Draft	
Year	Gain/(Loss) based on NWP	Gain/(Loss) based on GWP	Gain/(Loss) based on NWP	Gain/(Loss) based on GWP	% Change on UW Gain based on GWP	$ Change on UW Gain based on GWP
1999	15.04%	12.08%	13.91%	11.43%	-5.39%	($58,247,258)
2000	16.29%	13.09%	13.58%	11.16%	-14.72%	($172,325,395)
2001	14.05%	11.29%	12.53%	10.30%	-8.77%	($88,548,324)
2002	-8.33%	-6.69%	-5.49%	-4.51%	32.58%	$195,014,899
2003	15.96%	12.82%	15.40%	12.66%	-1.29%	($14,830,484)
2004	23.38%	18.79%	21.19%	17.42%	-7.29%	($122,403,740)
2005	34.23%	27.50%	30.98%	25.46%	-7.42%	($182,418,836)
2006	24.31%	19.53%	19.99%	16.43%	-15.88%	($277,438,544)
2007	30.95%	24.87%	27.11%	22.28%	-10.40%	($231,199,636)
2008	15.00%	12.05%	14.96%	12.30%	2.02%	$21,809,041
2004-2008 Avg	**25.57%**	**20.55%**	**22.85%**	**18.78%**	**-8.62%**	**($158,330,343)**
1999-2008 Avg	**18.09%**	**14.53%**	**16.42%**	**13.49%**	**-7.16%**	**($93,058,828)**
1988-2008 Avg	**12.39%**	**9.96%**	**11.80%**	**9.70%**	**-2.61%**	**($23,202,118)**
1981-2008 Avg	**11.39%**	**9.15%**	**11.06%**	**9.09%**	**-0.63%**	**($5,181,350)**

Standard Reinsurance Agreement (SRA)
Proportional Reinsurance "B"

2005 SRA	2011 SRA
▪ FCIC assumed a 5% Quota Share of the total gain or loss of a Company's book of business. ▪ Provision first introduced for the 2005 crop season. ▪ Due to the profitable nature of the business, this provision is the Government's way of reducing their cost to service and manage the MPCI program.	▪ FCIC Quota Share increased to 6.5%. ▪ The Companies can recapture 1.5% of this gain based on their market share in the underserved states (Group 3).

Standard Reinsurance Agreement (SRA)
Assigned Risk Fund

- Accommodates company's least desirable business.
- FCIC sets forth allocation limitations by state, based on previous loss history.
- Crop contracts must be designated to Assigned Risk within 30 days of sales closing date (i.e., commitment to purchase deadline).
- If Assigned Risk designations exceed allocated state capacity (75% of total in state), the excess rolls proportionately to the Commercial Fund.
- 80% of designated premium and claims thereon are ceded proportionately to FCIC.
- Has the most extensive State Stop Loss protection. Maximum loss exposure is 116.5% (16.5 point underwriting loss) per state on the retained premium.

Standard Reinsurance Agreement (SRA)
Commercial Fund Example

- Structured for a company's most profitable business.
- Profit/Loss Parameters vary between state groupings.
- Unlimited capacity per state.
- Company must retain at least 35% per state. We see 100% retention in most states.
- Up to 50% of designated premium can be ceded proportionately to FCIC.
- State Stop Loss limits company's exposure by product to 194% for Group 1 states and 151.5% for Groups 2 & 3 states. (94% and 51.5% point underwriting loss) per state on retained premium.
- Has most extensive profit potential of all funds.

Standard Reinsurance Agreement (SRA)
Examples

	Group 1 States			Group 2 & 3 States		
	Assigned Risk	Commercial	Total	Assigned Risk	Commercial	Total
Gross Premium	5,000,000	650,000,000	655,000,000	295,000,000	1,350,000,000	1,645,000,000
Retained %	20%	100%		20%	100%	
Net Retained Premium	1,000,000	650,000,000	651,000,000	59,000,000	1,350,000,000	1,409,000,000
Net Retained Premium after FCIC Cession	935,000	607,750,000	608,685,000	55,165,000	1,262,250,000	1,317,415,000
Max Possible U/W Gain - %	11.40%	34.75%		11.40%	42.63%	
Max Possible U/W Gain - $	106,590	211,193,125	211,299,715	6,288,810	538,097,175	544,385,985
Max Possible Loss Ratio - %	116.50%	194.00%		116.50%	51.50%	
Max Possible U/W Loss - $	1,089,275	1,179,035,000	1,180,124,275	64,267,225	650,058,750	714,325,975

Standard Reinsurance Agreement (SRA)
Examples

	GROSS								
	Assigned Risk			Commercial			Total		
State	Gross Premium (000's)	Gross Loss (000's)	Gross LR	Gross Premium (000's)	Gross Loss (000's)	Gross LR	Gross Premium (000's)	Gross Loss (000's)	Gross LR
IA	100	100	100%	4,900	3,185	65%	5,000	3,285	66%
MN	400	500	125%	4,600	2,300	50%	5,000	2,800	56%
CA	1,000	1,000	100%	3,000	2,400	80%	4,000	3,400	85%
TX	4,000	10,000	250%	1,000	950	95%	5,000	10,950	219%
PA	250	500	200%	250	250	100%	500	750	150%
Total	**5,750**	**12,100**	**210%**	**13,750**	**9,085**	**66%**	**19,500**	**21,185**	**109%**

	After Proportional Reinsurance								
	Assigned Risk - 20%			Commercial - 100%			Total		
State	Net Ret Premium (000's)	Net Ret Loss (000's)	Net LR	Net Ret Premium (000's)	Net Ret Loss (000's)	Net LR	Net Ret Premium (000's)	Net Ret Loss (000's)	Net LR
IA	20	20	100%	4,900	3,185	65%	4,920	3,205	65%
MN	80	100	125%	4,600	2,300	50%	4,680	2,400	51%
CA	200	200	100%	3,000	2,400	80%	3,200	2,600	81%
TX	800	2,000	250%	1,000	950	95%	1,800	2,950	164%
PA	50	100	200%	250	250	100%	300	350	117%
Total	**1,150**	**2,420**	**210%**	**13,750**	**9,085**	**66%**	**14,900**	**11,505**	**77%**

Standard Reinsurance Agreement (SRA)
Examples

	After Non-Proportional Reinsurance								
	Assigned Risk			Commercial			Total		
State	Net Ret Premium (000's)	U/W Gain/Loss (000's)	Net LR	Net Ret Premium (000's)	U/W Gain/Loss (000's)	Net LR	Net Ret Premium (000's)	U/W Gain/Loss (000's)	Net LR
IA	20	0	100.0%	4,900	1,286	73.8%	4,920	1,286	73.9%
MN	80	(1.5)	101.9%	4,600	1,484	67.8%	4,680	1,482	68.3%
CA	200	0	100.0%	3,000	585	80.5%	3,200	585	81.7%
TX	800	(72)	109.0%	1,000	49	95.1%	1,800	(23)	101.3%
PA	50	(3.5)	106.9%	250	0	100.0%	300	(3)	101.2%
Total	**1,150**	**(77)**	**106.7%**	**13,750**	**3,404**	**75.2%**	**14,900**	**3,327**	**77.7%**

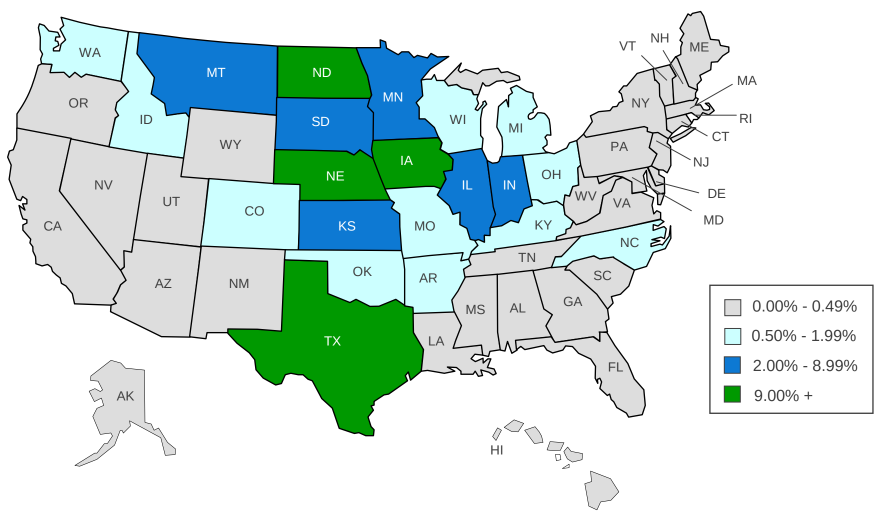
Standard Reinsurance Agreement (SRA)
Summary

When companies utilize the SRA effectively and cede business properly between the two Funds, they have the capability to adversely select against the FCIC by retaining high quality business and ceding marginal business to the Government. Reinsurers participate in the quality business retained by the companies and are essentially participating in a capped reinsurance program due to the inuring reinsurance protection offered by the FCIC.

Crop Hail

Crop Hail

2010 Industry Gross Premium by State – Total Premium $680.9M



Crop Hail

2010 Industry Premium by State

State	Premium	% of Total	State	Premium	% of Total
Alabama	$508,499	0.07%	Montana	$22,357,508	3.28%
Alaska		0.00%	Nebraska	$103,598,768	15.22%
Arizona	$2,254,621	0.33%	Nevada	$17,395	0.00%
Arkansas	$7,488,321	1.10%	New Hampshire		0.00%
California	$1,274,024	0.19%	New Jersey	$53,884	0.01%
Colorado	$11,063,750	1.62%	New Mexico	$1,894,596	0.28%
Connecticut		0.00%	New York	$97,829	0.01%
Delaware	$15,219	0.00%	North Carolina	$9,056,280	1.33%
Florida	$329,803	0.05%	North Dakota	$73,710,906	10.83%
Georgia	$1,247,190	0.18%	Ohio	$7,030,135	1.03%
Hawaii		0.00%	Oklahoma	$9,944,341	1.46%
Idaho	$10,555,585	1.55%	Oregon	$2,481,328	0.36%
Illinois	$55,141,722	8.10%	Pennsylvania	$98,422	0.01%
Indiana	$13,988,068	2.05%	Rhode Island		0.00%
Iowa	$79,363,761	11.66%	South Carolina	$293,279	0.04%
Kansas	$58,851,020	8.64%	South Dakota	$37,763,955	5.55%
Kentucky	$3,435,458	0.50%	Tennessee	$1,425,943	0.21%
Louisiana	$89,991	0.01%	Texas	$63,338,124	9.30%
Maine		0.00%	Utah	$53,674	0.01%
Maryland	$8,252	0.00%	Vermont		0.00%
Massachusetts	$1,260	0.00%	Virginia	$1,699,628	0.25%
Michigan	$5,345,169	0.79%	Washington	$9,976,171	1.47%
Minnesota	$59,562,304	8.75%	West Virginia	48	0.00%
Mississippi	$536,974	0.08%	Wisconsin	$11,392,860	1.67%
Missouri	$11,812,882	1.73%	Wyoming	$1,723,167	0.25%
			Total	**$680,882,114**	

Data as of May 2011 per NCIS database

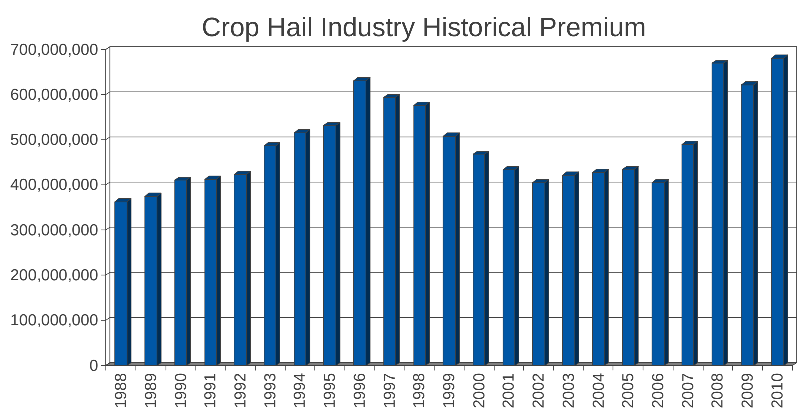
Crop Hail
Historical Industry Premium and Loss Ratios

Year	Premium	Loss Ratio (%)	Year	Premium	Loss Ratio (%)
1988	$362,842,000	36.00%	1999	$508,108,000	76.00%
1989	$374,948,000	55.00%	2000	$468,108,000	68.00%
1990	$410,681,000	77.00%	2001	$433,742,000	69.00%
1991	$412,480,000	61.00%	2002	$404,995,000	70.00%
1992	$423,054,000	110.00%	2003	$422,137,000	56.00%
1993	$486,958,000	81.00%	2004	$427,567,000	58.00%
1994	$515,819,000	87.00%	2005	$434,771,000	44.00%
1995	$531,409,000	58.00%	2006	$405,254,000	50.00%
1996	$630,965,000	72.00%	2007	$489,649,000	48.00%
1997	$594,026,000	57.00%	2008	$669,436,000	83.00%
1998	$576,464,000	83.00%	2009	$621,840,000	84.00%
			2010	$680,882,000	67.00%

2010 Data as of May 2011 per NCIS database

Assume 25% Expenses

Crop Hail
Industry Growth - Historical Perspective



- Prior to the advent of the Multi-Peril Crop Insurance, Farmers managed their agricultural risk through Crop Hail coverages and various disaster relief programs.
- With the increased popularity of CRC coverages, and higher MPCI subsidies to the Farmer, Crop Hail insurance products started to decline as a risk management tool.
- With the profitability of MPCI business, ceding companies targeted growth in the MPCI class by offering agents more competitive hail products.

Private Reinsurance

Private Reinsurance

- Quota Share
- Stop Loss/Aggregate Excess of Loss
- Industry Loss Warranty (ILW)
- Commodity Price Cover

Private Reinsurance
Quota Share

- Quota Share cessions can range widely in the industry, usually depending on the type of company insuring the business (stock, mutual or MGA/Fronting arrangements).
- Ceding Commissions, like most reinsurance agreements, are determined by viewing insurance company expenses as well as historical results.
- Reinsurance results for crop hail business are fairly well known by November 1, with final accounting during 1st quarter following end of treaty year.
- For MPCI business, results are fairly well known by February/March following the calendar year-end. New SRA means FCIC settlement won't occur until October/November the following year (subject to further adjustments).

Private Reinsurance
Stop Loss/Aggregate Excess

- Typical Crop Hail Stop Loss attachment points in the industry range from 80% to 100% of premium.
- Typical MPCI Stop Loss attachment points in the industry range from 100% to 110% of premium.
- Deposit premiums are typically due on July 1 and October 1 of the contract year.
- As is the case with Quota Share reinsurance, there is little or no tail to Stop Loss reinsurance.

Private Reinsurance
Industry Loss Warranty Example

Line of Business:	Multi-Peril Crop Insurance (MPCI)
Term:	January 1 – December 31, 2011
Loss Trigger:	A. The Company must sustain a Net Loss: and B. The Industry FCIC Gross Loss Ratio for 2011 FCIC year is greater than 170% as published by the Risk Management Agency (RMA) in their Summary of Business Reports
Indemnification Payout:	The Reinsurer shall indemnify the Company for an amount equal to 2.00% of $3M for every 1.00% loss ratio point above 170% FCIC gross loss ratio up to a 220% gross loss ratio.
Reinsurance Limit:	Liability of the Reinsurer shall not exceed the lesser of the Company's Net Retained Loss or $3M.

Private Reinsurance
Commodity Price Cover – Corn Example

Line of Business:	Multi-Peril Crop Insurance (MPCI) – Revenue Business for Corn
Term:	January 1 – December 31, 2011
Final Corn Base Price:	$6.01 (3/15/11 closing date per RMA database)
Loss Trigger:	A. The Company must sustain an increase in Gross Loss Ratio on all Revenue Corn policies due to a decrease in the October Average Price for December Corn compared to the Final Corn Base Price as determined by FCIC; and B. The October Average Price for December Corn, as established by the FCIC, is less than $4.51.
Indemnification Payout/ Reinsurance Limit:	The Reinsurer shall indemnify the Company for the greater of $833,500 or 1.667% part of $50M for every $.01 (1cent) that the October Average Price for December Corn, as established by the FCIC is less than $4.51 subject to a floor price of $3.91.

Why Crop Insurance?

- Low Frequency of Loss
- Low Severity of Loss
- Controlled Environment – Government oversees all aspects (rates, claims, underwriting, etc) of MPCI business
- Short Tail – Nearly all claims settled within 90 days following close of the contract year
- Excellent Statistical Base
- Does Not Aggregate with Other Property Lines
- No "Direct Reinsurer" Involvement
- Annual Crop Conference

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