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New Strategy Toward Insurance Independence

In the late 1980s, Farm Credit organizations faced an insurance crisis. Due to the instability in the ag economy, the commercial insurance market was no longer willing to insure our institutions. Farm Credit's solution was to create its own insurance provider, the Farm Credit Captive Insurance Company, funded by and serving every Farm Credit organization.

With the evolution of insurance needs over the past 40+ years, the Captive today self-funds approximately half of Farm Credit's coverages and purchases the other half from the commercial insurance market. The commercial insurance market is once again in upheaval, with five years of double-digit rate increases, new policy limitations and options diminishing as carriers exit the market or cancel coverage lines. Recognizing the risk this entails, and with guidance of the Farm Credit Captive Board of Governors, the Captive is implementing a new long-term strategy to become fully self-funded and continue to meet the System's insurance needs by providing all insurance coverages within the Captive.

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>
> — **BARBARA STILE**
> CHAIRPERSON, CAPTIVE BOARD OF GOVERNORS

"While the power of group purchasing has historically garnered us exceptionally low annual rate increases and kept our premiums down to around half of the industry average, the sharp upward trend in premiums and the uncertainty of key coverages, including cyber, remain a significant risk," says Barbara Stille, chair of the Captive's Board of Governors. "By providing all of Farm Credit's insurance needs, we'll no longer be at the mercy of a volatile and profit-driven market. We can provide the exact insurance products our members need, with low premiums and no worries about coverages being cancelled."

The Captive will continue its transition with an objective of being fully self-insured over the next 15 - 20 years, shifting small increments of the commercial market insurance to the Captive each year.

Building the necessary $150 to $200 million surplus to satisfy the Department of Insurance regulator and AM Best requirements will take place over the next 10-15 years. Building capital will primarily be achieved by reducing the Captive's annual patronage distribution by half over the next ten years, starting in 2024. The surplus requirement is to ensure enough funds are on-hand to pay projected claims.

The transition to a fully self-insured model is made feasible, in part, because of Farm Credit's traditionally low claim rate.

"Even with the Captive's claims team proactively looking for ways to compensate claims – the opposite philosophy of commercial providers – we've had remarkable profitability compared to the industry," says Brian Clanton, EVP, Chief Risk Management Officer for FCCS. "Our 10-year loss ratio is 44%, while a commercial provider might be excited by a 98% ratio."

The future financial benefits of the Captive's new strategy will be even more significant because once a sufficient surplus has been built through the patronage retention strategy, annual premiums moving forward need only cover the anticipated claims and operating expenses for that year. Typically, the Captive pays an average of $15 million in annual claims, which is approximately a third of the current overall premiums. Combined with the interest income from the invested surplus, future patronage distributions are also anticipated to grow significantly.

"By obtaining an increasing share of the System's insurance premium from the commercial market and instead collecting that money in our own coffers, we'll establish a highly sound, financial insurance company that's well positioned to meet Farm Credit's future needs," says Barbara.

For more information about the Farm Credit System Captive Insurance Company or the insurance services it provides, contact Brian Clanton, Senior Vice President, Risk Management and Insurance at 303.721.3281 or **Brian.Clanton@fccsconsulting.com**; or Lisa Parrinello, Director of Underwriting & Insurance Programs, at 303.721.3214 or **Lisa.Parrinello@fccsconsulting.com**.