STATEMENT BY FCIC CHAIRMAN OF THE BOARD
DR. KEITH COLLINS

WASHINGTON, October 31, 2003 – The Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC) voted on October 29, 2003, to implement a series of changes in the Sweet Potato Pilot Insurance Program (SPP) to improve the effectiveness of the program. The SPP, an actual production history (APH) plan of insurance, was initiated in 1998 in the following States and counties: Alabama – Baldwin County; California – Merced County; Louisiana – Avoyelles, Morehouse, and West Carroll Parishes; North Carolina – Columbus and Johnston Counties; and South Carolina – Horry County. These counties represent approximately 25 percent of total sweet potato acreage planted nationwide.

After five years of piloting this sweet potato program, the Risk Management Agency (RMA) initiated an evaluation of the program. The contract for evaluation was awarded to Watts & Associates, Inc., after a competitive process. RMA presented the evaluator's findings to the Board on October 29, 2003. Watts & Associates cited the following concerns in their evaluation:

- Excessively high loss ratios and frequencies of loss in most counties which were <u>not fully</u> explained by weather;
- In more than one state, the loss ratios and frequencies of loss were remarkably higher than those of other crops grown in the pilot counties;
- Net insured acres increased dramatically in some pilot program counties during the pilot period; and
- The validity of rates could not be verified.

Watts & Associates concluded: "…the existing program (as currently structured and implemented) cannot be continued. Without significant changes to address underlying program issues, the sweet potato pilot should be terminated" (p. 5, *Sweet Potato Pilot Evaluation*). The evaluators recommended changes to the policy language, loss adjustment procedures and underwriting standards, including changes to the crop provisions to align them with U.S. Grading Standards, and redefining "sweetpotatoes" in broad, general terms on a per-lot basis rather than an individual potato basis. They also recommend increased oversight to assure compliance with established policies and procedures.

Given that many of the recommendations could not be implemented in time for the 2004 crop season, the Board explored other options that could be used to improve the program in the short term, while longer-term solutions were being developed. Based on the contracted evaluation and RMA's suggested improvements, the Board voted to continue SPP for one year subject to the following modifications:

(1) Continue the program revisions made for the 2003 crop year, including the requirement that an insured producer must have grown sweet potatoes for commercial sale 3 out of the 5 previous years, and that acreage insured for the current year may not exceed 110 percent of the greatest number of acres grown in any one of the 3 previous crop years;

(2) Evaluate and make appropriate rate changes in each county up to the maximum statutory amount of 20 percent, as necessary, based on program loss experience;
(3) Limit the availability of insurance coverage to not more than the 60 percent coverage level;
(4) Limit the availability of coverage to basic units only;
(5) Institute a comprehensive field-monitoring program to focus on program delivery and implementation, including agent and loss adjuster performance, and to include producer compliance with rules and procedures; and
(6) Strengthen yield determination and loss adjustment procedures, as practical, to improve consistency in determining production to count, and to strengthen requirements regarding the adjustment of un-harvested production appraisals.

The Board also delegated to the FCIC Manager the authority to develop a new sweet potato crop insurance program to be piloted in states and counties as approved by the Board. If performance of the existing pilot does not improve in 2004, and if a new program cannot be developed for pilot testing beginning in 2005, the Board would be compelled to terminate the existing pilot program. The Board continues to search diligently for innovative risk protection products that meet the needs of farmers and ranchers that are actuarially appropriate and promote program integrity.

#