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ONE HUNDRED TENTH CONGRESS

# Congress of the United States

## House of Representatives

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May 31, 2007

Honorable David M. Walker  
Comptroller General of the United States  
U.S. Government Accountability Agency  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Walker:

On May 3, 2007 the Committee on Oversight and Government Reform held a hearing on the federal crop insurance program. At the hearing, Lisa Shames from the Government Accountability Office testified that the U.S. Department of Agriculture has paid almost \$11 billion to crop insurance providers since 1997, with a significant portion of these payments (approximately 40%) being retained by the insurance providers rather than being paid to farmers and ranchers.<sup>1</sup>

The cost of crop insurance is set by USDA, with all companies charging the same premiums for comparable coverage. As a result, crop insurance companies do not compete based on offering lower premiums. Instead, it appears that they compete in part by paying commissions to local insurance agents who can convince farmers and ranchers in their community to obtain coverage through a particular crop insurance company. According to testimony at the hearing, these commissions are “the industry’s number one cost,” with “commissions vary[ing] dramatically depending on how attractive an agent’s customers are to competing crop insurance companies.”<sup>2</sup>

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<sup>1</sup> House Committee on Oversight and Government Reform, *Hearing on Waste, Fraud, and Abuse in the Federal Crop Insurance Program*, Testimony of Lisa Shames, Acting Director, Natural Resources and Environment, GAO, 110<sup>th</sup> Cong. (May 3, 2007).

<sup>2</sup> House Committee on Oversight and Government Reform, *Hearing on Waste, Fraud, and Abuse in the Federal Crop Insurance Program*, Testimony of Dr. Bruce Babcock, Director, Center for Agricultural and Rural Development, Iowa State University, 110<sup>th</sup> Cong. (May 3, 2007).

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We are writing to request that GAO examine the financial arrangements that may exist among the insurance companies, their affiliated sales agents, and the farmers and ranchers who purchase crop insurance. Specifically, we request that GAO (1) examine the financial arrangements between the companies and their sales agents; (2) examine the financial arrangements between sales agents and farmers and ranchers, including the practices sales agents may use to compete for business; and (3) assess agents' costs for selling crop insurance to farmers and ranchers, taking into consideration the different types and sizes of policies.

If you have any questions, please contact Brian Cohen of the Committee staff at (202) 226-5854. Thank you for your cooperation in this matter.

Sincerely,



Henry A. Waxman  
Chairman



Tom Davis  
Ranking Member



Jim Cooper  
Member