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GAO

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Highlights

Highlights of GAO-04-517, a report to congressional requesters.

CROP INSURANCE

USDA Needs to Improve Oversight of Insurance Companies and Develop a Policy to Address Any Future Insolvencies

Why GAO Did This Study

U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the federal crop insurance program in partnership with insurance companies who share in the risk of loss or gain. In 2002, American Growers Insurance Company (American Growers), at the time, the largest participant in the program, was placed under regulatory control by the state of Nebraska. To ensure that policyholders were protected and that farmers' claims were paid, RMA agreed to fund the dissolution of American Growers. To date, RMA has spent about $40 million.

GAO was asked to determine (1) what factors led to the failure of American Growers, (2) whether RMA procedures were adequate to monitor companies' financial condition, and (3) how effectively and efficiently RMA handled the dissolution of American Growers.

What GAO Recommends

GAO recommends that RMA (1) develop written policies to improve reviews of companies' financial condition, (2) develop written agreements with states to improve coordination on the oversight of companies and (3) develop a policy clarifying RMA's authority as it relates to federal and state actions and responsibilities when a state regulator takes control of a company.

In commenting on this report, RMA agreed with our recommendations and has begun implementing them.

www.gao.gov/cgi-bin/getrpt?GAO-04-517.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Lawrence J. Dyckman at (202) 512-3851 or dyckmanl@gao.gov.

What GAO Found

The failure of American Growers was caused by the cumulative effect of company decisions that reduced the company's surplus, making it vulnerable to collapse when widespread drought in 2002 erased anticipated profits. The company's decisions were part of an overall strategy to increase the scope and size of American Growers' crop insurance business. However, when anticipated profits did not cover the company's high operating expenses and dropped its surplus below statutory minimums, Nebraska's Department of Insurance (NDOI) declared the company to be in a hazardous financial condition prompting the state commissioner to take control of the company.

In 2002, RMA's oversight was inadequate to evaluate the overall financial condition of companies selling federal crop insurance. Although RMA reviewed companies' plans for selling crop insurance and analyzed selected financial data, oversight procedures generally focused on financial data 6 to 18 months old and were insufficient to assess the overall financial health of the company. Additionally, RMA did not routinely share information or otherwise coordinate with state regulators on the financial condition of companies participating in the crop insurance program. For example, NDOI had identified financial and management weaknesses at American Growers. Since American Growers' failure, RMA has acted to strengthen its oversight procedures by requiring additional information on companies' planned financial operations. It is also working to improve its coordination with state insurance regulators. However, as we completed our review, neither of these initiatives had been included in written agency policies.

When American Growers failed, RMA effectively protected the company's policyholders, but lacked a policy to ensure it handled the insolvency efficiently. RMA has spent over $40 million, working with the state of Nebraska, to protect policyholders by ensuring that policies were transferred to other companies and that farmers' claims were paid. NDOI accommodated RMA's interests by allowing RMA to fund the operation of the company long enough to pay farmers' claims. Prior to American Growers' failure, RMA did not have an agreement with the NDOI commissioner defining state and federal financial roles and responsibilities. If the NDOI commissioner had decided to liquidate the company, RMA may have incurred more costs and had less flexibility in protecting policyholders.