

REVIEW OF THE FEDERAL CROP INSURANCE SYSTEM

HEARING BEFORE THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

MAY 4, 2005

Serial No. 109-7



Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

21-694 PDF

WASHINGTON : 2005

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REVIEW OF THE FEDERAL CROP INSURANCE SYSTEM

WEDNESDAY, MAY 4, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1300 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Everett, Jenkins, Johnson, Bonner, King, Neugebauer, Boustany, Conaway, Fortenberry, Moran, Goodlatte [ex officio], Osborne, Etheridge, Salazar, Marshall, Herseth, Butterfield, Melancon, Pomeroy, Boswell, Larsen, Chandler, Scott, Costa, and Peterson [ex officio].

Staff present: Craig Jagger, Tyler Wegmeyer, Callista Gingrich, clerk; Chip Conley, and John Riley.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. Good morning. This hearing of this subcommittee will now come to order.

We are here today to review the Federal Crop Insurance System, a topic that this subcommittee has taken seriously for several years now. I very much appreciate the witnesses that will join us in a moment. And we are here for the purpose of finding ways to improve the delivery and effectiveness of crop insurance producers across America.

In the last Congress, we held oversight hearings here in Washington along with a hearing in Minnesota and Texas. We sought input from farmers from farm organizations, commodity groups, and the Risk Management Agency on how the crop insurance system could be improved.

I thought today would be useful for our subcommittee members to have RMA and the industry evaluate what progress and challenges there currently are in the crop insurance program. I think it is very useful for members of this subcommittee on a regular basis to hear from RMA, from the industry, and from farmers themselves as to what is working and what improvements are needed.

We are here to consider ways to improve crop insurance as a risk management tool for our farmers, ranchers, and producers. A couple of issues that are particularly important to me today that are

on my list are topics of soybean rust, which this subcommittee and Mr. Lucas' subcommittee examined in another arena last week, and the Premium Reduction Plan, which has received a lot of attention from the industry. The topic of multi-year disasters is one that is very important to me as a Member of Congress from Kansas. We have suffered many years of drought, and I look forward to hearing the current status from the RMA of that project to provide a new tool for our farmers in those circumstances.

I stated last year at our soybean rust hearing that our farmers need to be correctly informed as to what production practices will be required of them in order for them to qualify for indemnity under the Crop Insurance Policy.

I look forward to hearing from RMA about education efforts and procedures that are in place and about the concerns of the industry that industry has for their business.

PRP, which has been on the books since 1994, has just recently been brought to the forefront of the issues that the industry is dealing with, with the comment period on a proposed rule just ending last April 25. And I look forward today to know some of the conclusions that have been made from the over 600 comments I understand that were received and what the current plan is for PRP now.

Some in the industry have not been pleased with the program, while others have embraced it as an opportunity, and today, we have witnesses on both sides. I would welcome the subcommittee members to raise other issues, not necessarily the ones that I just mentioned, that are important to them and their farmers at home.

I conclude my remarks with just a mention of the renegotiation of the SRA. Plenty of concerns were raised by lawmakers and crop insurance companies last year. I am pleased that the companies have all signed the SRA. My concern has always been about the lack of competition should we see further consolidation of the industry.

This hearing is not designed to address the issue of SRA or its negotiations, but I would not be surprised if that is a topic that Members may wish to address.

I again thank Mr. Davidson and Dr. Collins for joining us today.

And I now turn to the gentleman from North Carolina for any opening remarks he would like to make.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Let me thank you for convening the subcommittee for what I think is a very important hearing regarding Federal crop insurance. I want to commend you for your diligence where oversight of the program is concerned.

Mr. Chairman, the section of the Federal Crop Insurance Act that allows for Premium Reduction Plans laid dormant for nearly a decade since it was first enacted on the recommendation of the Clinton administration in 1994. As Crop1 proceeds into its third year of sales of the discounted products and the States it serves,

the issues raised by this provision of the law have really begun to crystallize.

The one thing that our witnesses do agree on is that the Government's response to the concerns that are raised will be tremendously important to the future of the Crop Insurance Program. Also, Mr. Chairman, the arrival of a new, as you have just indicated, and potential devastating disease, Asian soybean rust, to our country is also presenting particular challenges for the Risk Management Agency and its administration of the Crop Insurance Program. I think we can agree this disease is probably here to stay, and it is crucial, in my view, that our subcommittee continue to stay apprised of how the agency and the industry will respond to this disease that could be devastating to some of our farmers.

Mr. Chairman, I am grateful for our witnesses who have taken the time to be with us today, and I look forward to their testimony on both sides of the issue, because I know it will be enlightening as we deal with an issue this important to the future of agriculture.

Thank you, and I yield back.

Mr. MORAN. I thank the distinguished gentleman from North Carolina.

The Chair would request that other Members submit their opening statements for the record, so that witnesses may begin their testimony and we have plenty of time for questioning.

PREPARED STATEMENT OF HON. TIMOTHY V. JOHNSON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ILLINOIS

I appreciate the opportunity to provide comments on the Risk Management Agency's proposed rule regarding the "Submission of Policies, Provisions of Policies, Rates of Premium, and Premium Reduction Plans." I strongly support maintaining a crop insurance program that is working and providing stability in our Nation's rural economy for the America's farmers and specifically for farmers of the 15th district of Illinois; whom I represent.

There are businesses in my district with extensive experience providing crop insurance. I understand first-hand the complicated and costly nature of delivering crop insurance to farmers. While I support the effort of the RMA to find ways to reduce costs to farmers and pledge our continuing efforts to assist in this cause—I'm very wary of PRPs that promise lower costs but, ultimately, deliver little value to farmers.

I believe the implementation of the proposed rule calls into question the availability of crop insurance to small farmers and could also result in companies pulling out of high loss ratio or high expense rate states, thus reducing the availability of the program in some States across the country.

I respectfully submit the following comments to the Subcommittee on General Farm Commodities and Risk Management:

Cost Savings Must be Verified

Approving a PRP based on "projected savings" should be avoided. I'm very concerned that a company could "project" savings, offer lower prices to farmers based on these "projections" and attract a sizable portion of crop insurance sales. Should these "projections" not be accurate, however, the farmers who signed up with the company would feel the ultimate impact through inadequate service and inadequate coverage. I'm very concerned that an insurance provider would offer a discount, expand its market share and then find out that it couldn't deliver on its promises. Inevitably, the Federal Government, along with other crop insurance providers that acted more responsibly—provided there were any remaining to deliver insurance in a particular State, would be left to pick up the pieces of the failed experiment.

Any company that wishes to engage in a PRP should be required to demonstrate, based on actual experience, its ability to achieve cost savings in delivering plans of insurance to farmers. Most importantly, it should demonstrate to RMA its ability to provide the appropriate level of service to farmers on an ongoing basis.

Impact on Service to Farmers

I have heard from a few of my constituents groups that have experience delivering crop insurance that crop insurance delivery costs cannot be noticeably reduced without significantly reducing the level of service provided to farmers. Tailoring the vast array of crop insurance products to suit the needs of individual farmers is time consuming and requires significant expertise.

This necessary level of expertise requires significant ongoing training and support. Without it, farmers are unlikely to be served either at the level they are served today or at a level sufficient to meet their needs in the future. In whatever PRPs that RMA chooses to endorse, the agency should closely monitor—and require as a condition of approving the plan—a complete training program for agents who will offer the plan to farmers based on the criteria established in appendix IV of the 2005 SRA.

The preservation of crop insurance integrity is tied to the level of service needed. Given the number of and complexities of crop insurance products offered, there should be some simplification of products before any PRP rules are implemented. For example, Revenue Assurance and Crop Revenue Coverage products are similar (yet different enough) so that some years one product is more attractive than the other. As long as products like RA and CRC are separate, implementation remains more complex making it harder to achieve the efficiencies to deliver PRP.

Producer Access to Products

The RMA requires that producers have access to all products approved by the agency. This “universal service” approach is a central tenet of the crop insurance program. It ensures that all farmers, regardless of size, pay the same price for the same level of crop insurance coverage.

Because the delivery system is compensated, by and large, according to a percentage of the premium sold, there is a built-in incentive to write larger policies. In many cases, the sales of larger policies actually help cover the costs of selling and servicing smaller farmers. It is unlikely insurance providers, already facing tight margins, will be willing to actively seek the business of smaller farmers if the return in doing so is reduced.

There is nothing in the proposed regulations keeping an agent from selling a discount plan from one crop insurance company to a large producer and a regular plan from another company to a small producer. The regulation offers no means to ensure that discounted products will be made available to small producers. There will be additional workload and challenges for RMA in the approval, implementation and monitoring of PRP.

PREPARED STATEMENT OF HON. G.K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. Chairman, thank you for holding this hearing. Crop insurance is a critical element of the safety net that exists for farmers throughout our Nation.

One such company that writes crop insurance for farmers in my home State of North Carolina is here today, Mr. Billy Rose of Crop1, whose issuing company, Occidental Fire & Casualty serves a large number of farmers in my district.

Mr. Chairman, crop insurance is a critical part of the safety net in the farm bill. My congressional district is exceptionally prone to severe hurricanes, with an average of two hurricanes coming ashore in my district in eastern North Carolina per year. Farmers in some parts of the State have suffered catastrophic loss multiple times in their lifetimes and it is the crop insurance programs mandated in the farm bill and provided by companies in North Carolina that enables them to continue operations in the future years.

In 1988, Hurricane Floyd came ashore in my district, resulting in a once in a thousand years flood. Some parts of eastern North Carolina were submerged in as much as 30 feet of water and over \$6 billion in damage was incurred.

I thank the chairman and ranking member.

Mr. MORAN. We have, at our table already, Dr. Keith Collins, the Chief Economist to the U.S. Department of Agriculture, and he is here in his capacity as Chairman of the Federal Crop Insurance Corporation, and also Mr. Ross J. Davidson, Jr., who is the Administrator of the Risk Management Agency, U.S. Department of Agriculture.

Dr. Collins, you may begin at your pleasure.

STATEMENT OF KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, AND CHAIRMAN, FEDERAL CROP INSURANCE CORPORATION

Mr. COLLINS. Thank you very much.

Mr. Chairman, Mr. Etheridge, and other members that are here today, thank you for the opportunity to participate with Mr. Davidson in today's hearing.

I think I will use my few minutes to briefly discuss some of the recent key actions the Board of Directors of the Federal Crop Insurance Corporation has taken over the past year. The Board, as you all know, has general management responsibility for FCIC. During the past year, we have focused on evaluating FCIC's product portfolio, considering new products, improving and expanding existing products, and dealing with the Premium Reduction Plan, as you just discussed, as well as dealing with other issues.

The Federal Crop Insurance Program is growing. I believe it is getting better, and I believe it generally serves the public well today. Acreage in the program and insured liability have reached record highs as farmers have increasingly turned to crop insurance to manage their risks and also as more products have been developed and approved for more crops and in more locations.

Livestock pilot programs again occupied the attention of the Board this past year as BSE and other issues necessitated that we stop sales of the Livestock Risk Protection and Livestock Gross Margin Pilot Policies. Changes were approved by the Board, making it possible for the Board to reopen sales of improved plans of these livestock products with the start of the fiscal year we are now in. And we are planning soon to contract for an evaluation of these livestock plans of insurance.

During the past year, the Board also approved the significant expansion of Adjusted Gross Revenue Lite, known as AGR-Lite. This policy, first offered in Pennsylvania in 2003, has now been expanded to include 17 States, including Pennsylvania. AGR-Lite covers adjusted gross revenue from the whole farm based on 5 years of Federal income tax return data and expected income from the current year. The Board believes that AGR-Lite can fill an important void in our product portfolio, especially by appealing to small to medium-sized producers and producers of livestock and specialty crops. Sales, however, have been slow of this product, and the Board is working with the submitter to consider ways to make the policy more attractive. In fact, we had a Board meeting last week, and in our Board meeting, we sent out for expert review a series of potential changes in AGR-Lite that are designed to improve the product and increase participation.

Other products recently approved by the Board include a Silage Sorghum Pilot Program, the Group Risk Income Protection Plan of insurance for grain sorghum, a new pilot Group Risk Plan for rangeland, a new pilot program for sweet potatoes, and permanent programs for mustard, mint, wild rice, and cabbage.

A major issue the Board continues to address is the provision for a premium reduction for producers. Section 508(e)(3) of the Federal Crop Insurance Act requires the FCIC to allow approved insurance providers to offer a Premium Reduction Plan if they meet the legal requirements. In 2002, as noted, one company, Crop1, requested

Board approval for a PRP. By resolution in December of 2002, the Board established certain standards that such a PRP should meet. The Board also directed RMA to develop more detailed procedures under which Crop1, and other companies, could apply for and operate a PRP. Since then, several other insurance companies, representing over 80 percent of the crop insurance business, have requested approval to offer a Premium Reduction Plan. Given the diversity of these proposals, implementation and regulatory issues that they raised, and various concerns expressed by the public, including companies, agents, producers, and others, the Board decided that all stakeholders should have an opportunity to present their views on Premium Reduction Plans. Accordingly, the Board directed, and RMA is proceeding, with notice and comment rule making to establish the framework by which such plans will be evaluated, approved, regulated, and operated.

During this rule-making process, the Board has provided its counsel to RMA on a range of PRP-related issues. We created an ad hoc committee that has reviewed the proposed rule, and we will continue to work with RMA on the development of the final rule. After the final rule is issued, the Board plans to review with the manager of FCIC, Mr. Davidson, all submissions for approval of a PRP.

Mr. Chairman, that concludes my comments.

[The prepared statement of Mr. Collins appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Dr. Collins.

Mr. Davidson.

**STATEMENT OF ROSS J. DAVIDSON, JR., ADMINISTRATOR,
RISK MANAGEMENT AGENCY, U.S. DEPARTMENT OF AGRICULTURE**

Mr. DAVIDSON. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you today and report on the progress and the challenges of the Federal Crop Insurance Program.

Twenty-five years ago, the Federal Crop Insurance Act of 1980 became law, creating a unique partnership between the private insurance companies that deliver this program and the Federal Government within the crop insurance program.

The program has experienced extraordinary growth since then. Through the private sector delivery system in crop year 2004, RMA provided approximately \$46.7 billion of protection to farmers on over 358 commodity types, covering over 80 percent of planted acreage in major commodities. This coverage was offered through 22 plans of insurance, and approximately 1.25 million policies that insured about 221 million acres of farmland.

Attached to my testimony are several charts that provide further background and highlight the growth of the Federal Crop Insurance Program.

In 2004, crop insurance provided approximately \$3.1 billion in indemnity payments to farmers and ranchers, including \$218 million for the four hurricanes in the Southeast, and approximately \$337 million for upper Midwest freezes.

We now have 16 approved insurance providers selling and servicing crop insurance, compared to 14 when the 2005 Standard Rein-

insurance Agreement was signed. Most of these companies have requested authorization to increase the amount of premium that they write and the number of States that they intend to serve. Since the SRA was signed, three new insurance companies have been approved.

The 2004 reinsurance year was exceptionally profitable for the companies and their commercial reinsurers, with an estimated \$700-plus million in underwriting gain. In 2003, as a comparison, companies had an underwriting gain of \$380 million, and of course we all know, in 2002, that there was an underwriting loss of about \$46 million in the program. The Administrative and Operating Expense Reimbursement has also risen from \$626 million in 2002 to an estimated \$889 million in 2004.

I would like to provide a brief update on some of the key issues that the subcommittee has identified for interest. As Dr. Collins has expressed, and you, Mr. Chairman, Congress added section 508(e)(3) of the Federal Crop Insurance Act in 1994, which allows approved insurance providers to offer premium reductions to farmers corresponding to demonstrated efficiencies in delivering crop insurance below the administrative and operative expense reimbursement. The Act requires that the efficiency be subject to the rules, limitations, and procedures established by the Federal Crop Insurance Corporation. The Board of Directors approved standards for allowing insurers to be approved to offer Premium Reduction Plans in early 2003 in response to the application of one company, and that company was approved and has been operating for 3 years. Those procedures, which were available to all companies, have continued until recently. As Dr. Collins has indicated, the Board directed that we go through a notice and comment rule-making process in response to a number of applications that have been made to the agency that varied significantly from the established procedures.

The proposed rule for PRP was published in the Federal Register on February 24, 2005, and the comment period for 60 days has just closed. We received approximately 800 separate mailings pertaining to the PRP proposed rule, and we are in the process of categorizing those and analyzing them.

Soybean rust is a major issue for us, and we have issued a number of communications on soybean rust and continue to provide clarification when we are asked to do that and have communicated through the companies, as well as augmenting that communication.

Multi-year disasters for declining yields continues to be a concern. We are in the process of negotiating on two contracts. Because we are in that contracting process, we can't disclose the details but it is clear from the effort that were put forward that any proposal to effectively address this issue will require additional funding and possibly additional authority.

We continue to work on fraud, waste, and abuse through data mining and other advanced technologies to leverage our resources within the agency. We have saved multiple millions of dollars in deterring fraud, waste, and abuse and hope to be able to continue that based upon continued funding for datamining.

We have also issued a memorandum with regard to conflicts of interest and implementing the Standard Reinsurance Agreement.

Companies and agents have asked for further clarification, and a manager's bulletin is pending.

Pasture, forage, rangeland and hay initiatives are in the works as well, and we hope to be able to provide effective coverage for a broad range of the 400 to 600 million acres of private forage and rangeland and pasture that exists in the United States.

So with that, Mr. Chairman, I would be happy to respond to any questions.

[The prepared statement of Mr. Davidson appears at the conclusion of the hearing.]

Mr. MORAN. Thank you for your statements, and thank you very much.

I, of course, have had a long history with RMA in regard to multi-year disasters and the attempt to provide a policy or an add-on to coverage for farmers who experience difficult times, multi-year disasters, in our case, drought, year after year. You indicate that at this point in time you can't publicly release the details of those proposals. Your next sentence in your testimony is that any proposal to effectively address this issue will require additional funding and possibly new statutory authority. Can you give us a timeline in which you might be back before us with any kind of request in regard to this issue?

Mr. DAVIDSON. Well, Mr. Chairman, we are very close to being able to finalize these contract negotiations, and within about a month, we should finish and be able to talk publicly about these proposals. At that point in time, I would anticipate that we would come to you and let you know what elements of that might require additional funding and authority.

Mr. MORAN. Assuming that Congress responded to your request, what crop year would that opportunity then exist for farmers in the United States?

Mr. DAVIDSON. Well, of course, depending upon how fast that would happen, it would take a little while to go through the actual development process of the product. As you know, it takes some time for the vetting and the development of the product. And so it probably would be a couple of years before we would be able to do something.

Mr. MORAN. Dr. Collins, along this line of multi-year disasters, do you have suggestions for Congress? We have had the opportunity and have taken advantage of the opportunity to provide ad hoc disaster assistance to farmers. Is there something that should be done legislatively, administratively in crop insurance to reduce the need for ad hoc disaster? One of the questions I have asked numerous experts, and perhaps I have asked you in the past, is it possible to do away with ad hoc disaster assistance by creating an insurance policy or program that eliminates that need?

Mr. COLLINS. Mr. Chairman, I don't know if I could answer that. I thought at one point we might be heading down that road as the remuneration rates in disaster bills declined, we started offsetting the costs of disaster bills and we started capping the sum of disaster payments plus crop insurance indemnities. I thought all of that was probably a reflection of an improved crop insurance support system, but I have been told by many others that it is not. It is just simply budget requirements that have led to all of that.

I think we are on the right track, though. If you look at what the problems are that necessitate ad hoc disaster assistance, one long-standing problem has been participation in the Crop Insurance Program. When we had our first crop insurance reform bill in 1994, participation was 38 percent of eligible acreage. Today, it is 80 percent of eligible acreage. We have improved. One of the most dramatic changes in crop insurance over the last few years has been buy-up coverage. In 1998, 8 percent of policies were 70 percent or higher coverage. For the 2004 crop, it was 58 percent. I mean, these are astonishing developments in crop insurance. But there are still gaps, and gaps where you get problems and motivations for ad hoc disaster. One major gap has been fruits, vegetables, and specialty crops. I think in that area, we have also made dramatic progress. The 2002 farm bill identified 31 horticultural crops of special interest. We now have programs for 21 of those 31 crops, and we have contract work underway for 6 of the remaining 10. So we are plugging the gap on fruits and vegetables, and we are making those products better. A lot of participation in those crops has been at catastrophic levels for lots of reasons, but I think we are improving those so that we might get buy-up in those as well.

The third major area is livestock. Of course, we have a livestock sector that produces \$100 billion worth of value a year in the United States, and we have a cap on what we can spend on livestock products for crop insurance at \$20 million a year. So there is not much we can do on the livestock animal side, although we have a couple of price pilots going. The big gap is rangeland, pasture, forage, hay, improving those products, which have not performed very well. We have had one rangeland product with about 15 million acres in it.

One of the things the Board did this past year was eliminate that existing pilot, replace it with a new one. We have potentially as much as 60 million acres that could participate in that program. So I think we are on the right track there.

The answer to your question is we are on the right track. We are going in the right direction. And what we are going to do for Congress is we are going to give you the confidence that if you don't want to fund an ad hoc disaster bill for budget reasons, that you will have the justification for doing so based on having a Crop Insurance Program that is working well.

Mr. MORAN. I agree. In my conversations with my colleagues in seeking support for ad hoc disaster, there is always a belief that, first of all, the farm bill should have taken care of this, and then once you get beyond that, well, then crop insurance should have taken care of this.

Mr. COLLINS. Right.

Mr. MORAN. I do think that it has been the constraints of the budget. I don't know if we will have any success upon the departure of the gentleman from Nebraska, Mr. Osborne, in getting disaster assistance again. I am losing my ally, so it becomes even more difficult over time.

On PRP, Dr. Collins, you and I had conversation on the phone at least once, maybe twice, and ultimately, the rule-making process began. What issues should we be concerned about in the overall ef-

fect of PRP upon the crop insurance delivery system? What are the issues that arise that create a challenge, potential problem, or is there just all benefit to the system?

Mr. COLLINS. That is a question that will be answered probably 100 times this morning.

Clearly, there are some benefits. Let me start with that. One of the things that we did in trying to get a handle around PRP was to go to our expert reviewers that we have under contract and asked them to take a look at PRP. And one of the questions we asked them is the underlying rationale for PRP is to give producers a break on premium, to increase participation, to increase buy-up coverage, will those things happen? And generally, they felt that they would. I mean, there was some difference of opinion about what the increase would be. One of the analyses we contracted for suggested for wheat, corn, and soybeans, we might get a 2 percent increase in acreage participating, and we might get a 4½ percent increase in buy-up coverage with a 3½ percent premium reduction.

So I think there are some benefits. Those are the benefits: higher participation and lower premiums for producers and income benefit for producers.

On the challenge side, on the problem side, what we are doing with this provision is we are taking a highly-regulated industry, like a public utility, where we set the rates, where we contract to deliver the program, where we pay costs of delivery for the companies, and we are trying to peel away part of that rigid regulatory structure and introduce competition. And when you introduce competition in such a regulated structure, and this may not be the best way in the world to introduce it, but when you introduce competition in this kind of a structure, change is going to occur. And when change occurs, that creates dislocation and disruption costs for people. And one of those costs might be some restructuring of the agent workforce, and I think that is a concern that people have raised. Another one of those costs is hypothesized under-serving of small, limited resource, women or minority producers. So that is another thing we want to watch. We were cognizant of those kinds of effects when the proposed rule was crafted.

But I would say the primary issue is the potential for high-risk producers or small producers not having the service that they might have had in the past and then the competition, the effects that that would have on agent compensation and the size and quality of the agent workforce. I think those are the main issues. The question is, can we deliver a final rule that can provide the benefits that I have discussed and try to mitigate or ameliorate those kinds of challenges or disadvantages.

Mr. MORAN. Dr. Collins, thank you.

The last time Dr. Collins appeared before our subcommittee, I asked him how many times he had appeared before a congressional committee, maybe just the Agriculture Committee, and the answer is in excess of 70. I guess we are not tired of hearing from you yet: we keep inviting you back. We are glad you are here, Dr. Collins.

We have both our chairman of the full committee and the ranking member, who we are delighted to have, and the Chair now recognizes the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. I thank you, Mr. Chairman.

And Mr. Davidson, you may or may not know, up in the northern part of my district, we have a turf grass industry that is really developing. They used to mostly grow bluegrass, but now they have gotten into a lot of different other types of grasses for golf courses and one thing and another. And apparently, they have been working through the system since 2000 trying to get a crop insurance product that they can use for that industry. And I guess you sent a survey out to the producers in our area. I guess they produce this in the Northwest. I am not exactly sure, but could you tell me where that is at and what happens next in the process?

Mr. DAVIDSON. Sure. As I am sure you know, under ARPA guidelines, we are required to contract out the development of new products and grass seed is one of those products that we have contracted out for a feasibility study to see whether a product could be developed. That feasibility study is conducted by a third-party contracted entity, and that entity is in the survey process right now. So that is what you are describing. When we heard that there was interest on the part of your producers, we added them to that survey, and they will be part of the feasibility study. We anticipate that that feasibility study will be delivered to RMA some time in 2006. Pending the results of whether or not it is feasible to develop an insurance product, it will take about a year and a half to develop a product, and then we will pilot that product in certain States. And so that is the process that we will go through, but they are included in that feasibility study.

Mr. PETERSON. There is a concern. The people in my area definitely want this product as soon as they can get it, but there is a concern that apparently producers in other areas don't want this. Do you know anything about that? And will that affect the outcome?

Mr. DAVIDSON. Yes. We have not received the feasibility report. That aspect of demand for a product is addressed within the balance of a feasibility report, and what we need to do when we receive that, is to assess where the demand is, how broadly based that demand is, and of course, the Board of Directors takes that into account as they determine whether or not to go ahead with the development of a product.

Mr. PETERSON. If they determine it is feasible and yet some other part of the country doesn't want it, you could probably do a pilot in the area where they do want it?

Mr. DAVIDSON. That is entirely possible that just because one sector doesn't want it and another one does it doesn't necessarily mean that we don't do it.

Mr. PETERSON. You are looking at 2007 or 2008 at the earliest.

Mr. DAVIDSON. Probably, yes. For a pilot program, about 2008 is my guess.

Mr. PETERSON. In your charts and stuff that you gave us, I think Mr. Collins testified to this, too, that over 80 percent of the planted acreage is covered. I assume that includes people that have CAT coverage and people that have buy-up?

Mr. DAVIDSON. Yes, it does. Yes, it counts all levels of coverage.

Mr. PETERSON. All right. What percentage of that is CAT coverage, and what percentage is buy-up, do you know?

Mr. DAVIDSON. I don't have that on the top of my head, but it is a declining percentage. Over the years, we have seen CAT generally decline and be replaced by buy-up.

Mr. COLLINS?

Mr. COLLINS. I think I have it here. It is, let us see, 2004. Maybe I don't have it.

Mr. DAVIDSON. It is a relatively small percentage. It is about—

Mr. COLLINS. Thirty one million acres is CAT coverage.

Mr. DAVIDSON. Yes, so about 15 percent.

Mr. PETERSON. Fifteen percent?

Mr. DAVIDSON. And that has declined from a much higher percentage from before ARPA.

Mr. PETERSON. Do you have the information about what that percentage is in different States and regions?

Mr. DAVIDSON. Yes, we do.

Mr. PETERSON. Could you make that available?

Mr. DAVIDSON. We will.

Mr. PETERSON. And do you have the trend line on that, too, in the different areas?

Mr. DAVIDSON. We can show you for multiple years how that has been going.

Mr. PETERSON. OK. All right. Thank you.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Peterson.

Also joining us today is the chairman of our committee. I recognize the gentleman from Virginia, Mr. Goodlatte.

The CHAIRMAN. Mr. Speaker—Mr. Chairman. Mr. Speaker, that sounds good to you, doesn't it?

Mr. MORAN. Mr. Chairman sounds fine, too.

The CHAIRMAN. Well, for the morning, Mr. Chairman, it is a pleasure to participate in your hearing, and I want to thank you for what you have done on this issue.

As you know, when I became chairman of the full committee, one of my top five priorities for the committee that I announced at that time was to expand and improve crop insurance, and you have, and your subcommittee has, been very tenacious in pursuing that issue. I think some of the problems have come forward today, primarily a lack of resources, and that is what I wanted to ask Dr. Collins about.

As you may know, my district is primarily livestock oriented, and the ability to get involved in this area is very limited, as you noted, with just \$20 million available. As we look ahead, though, to the next farm bill, when resources may be available and adjusted, do you have any thought on what type of resources the amount of money we might require to do an effective job with livestock?

Mr. COLLINS. Mr. Chairman, I am sorry. I don't. I think that when the Agricultural Risk Protection Act of 2000 was passed, it gave us the authority to run livestock pilots. It was a very general authority. We weren't familiar with livestock. We were a crop insurance business. One of the things that provision does is it gives the FCIC authority to basically underwrite trade options. That is basically what we are doing with our Livestock Risk Protection and our Livestock Gross Margin products. Those are price insurance products, or margin insurance products. We have had a lot of de-

bate within the Board of Directors on whether that is the appropriate direction to go for the future for livestock. Some people think that those things are awfully close to options contracts and that maybe we are infringing on an area of private sector commercial business we shouldn't. Others think that these products can change over time and become maybe more complicated in more useful type derivatives. And in fact, we have before us a new submission that we just got last week for another version of Livestock Gross Margin that would apply to different species.

So these products are expanding. We have expanded into more States and more species. But the jury is out on those. The Board has been particularly concerned about whether this is the right direction. We would like to be able to contribute to the process for the 2007 farm bill on this.

The CHAIRMAN. In that regard, have you looked at insurance that guards against various types of animal diseases?

Mr. COLLINS. We have. We have had one private sector submission. That submission was withdrawn, and it was withdrawn primarily because the Board was not comfortable with it. And I think that we weren't comfortable with it because the whole issue of how you deal with livestock diseases from a broad Federal perspective has not been resolved. It is unsettled. We have authorities, for example, in the Animal and Plant Health Inspection Service for compensation. How do those compensation authorities work together with a private sector animal disease insurance product? How do we rate for terrorist action or things like that, if terrorism was going to be included in an animal disease product?

There was a tremendous number of questions like that that led us not to want to deal with it when it was submitted at that time. Subsequent to that, we contracted with SAIC to do a study of livestock disaster-related products. We have that study. I am not sure, has that study been completed?

Mr. DAVIDSON. No.

Mr. COLLINS. No, the study has not been completed. We have contracted with them to help inform us on this issue. We are also going to contract this summer for an evaluation of the LRP and LGM plans of insurance. When we get the results of that study and the SAIC study, I think we will be in a better position to say what we think might be the appropriate future direction for crop insurance.

I will mention one other thing, and that is Adjusted Gross Revenue policies. We have had the pilot going on for several years for Adjusted Gross Revenue. That policy is a whole farm policy, but it has a limitation on livestock liability. It can't exceed 35 percent of the total liability of the policy. Subsequent to that, we approved AGR-Lite, Adjusted Gross Revenue Lite. One hundred percent of the whole farm revenue can come from livestock. But we capped the total liability to \$250,000. So it is designed for very small producers.

Now we are struggling with that. We are thinking that AGR-Lite might be a product that we could expand in the future and be much more appealing to livestock producers if we can figure out how to deal with the cap on that policy and figure out how to deal with the diversification issue. That policy requires that it should be

a diversified operation, and a lot of livestock operations aren't. So that is exactly what we just sent for expert review last week to see if we can figure out how to deal with the coverage levels, the liability cap, and the diversification factor in AGR-Lite, and I am hopeful that maybe that, too, could be a product for livestock down the road.

The CHAIRMAN. In any of these trial programs that you have been able to do with the limited resources you have, have poultry been included?

Mr. COLLINS. Not to my knowledge.

The CHAIRMAN. I see Mr. Davidson is shaking his head yes.

Mr. DAVIDSON. Well, poultry is being considered, and we do have a feasibility study that we are looking at for poultry. The challenge that we have with poultry is the way the industry is organized. And our authority allows us to cover producers if they actually own the product. And as you know, poultry has been organized such that the producers are more contractors for raising the product than the actual ownership of the product is—

The CHAIRMAN. It isn't very vertically integrated.

Mr. DAVIDSON. No. So that creates a challenge for us.

The CHAIRMAN. Well, I see my time is expired.

Let me just say, Dr. Collins, as you move forward on this, it would be very, very helpful to this committee, first, to have a copy of that report on livestock when it becomes available, and second, and I realize I have caught you flatfooted today without any warning, but to look at what kind of resources you think we are talking about as we expand in this area and a whole host of other areas. As you know, we cover about 90 percent of the value of commodities, but we only cover about 10 percent of the types of commodities. And so as you move into all of the different types of specialty crops in the country, that is another area that is very difficult I know but also one where if we are going to continue to add value to our agriculture to remain competitive internationally, having this safety net expanded into more and more products is vital. And it is going to cost money. We know it. So the more we know going into the writing of the next farm bill about what kind of dollars we are talking about, the best we can start preparing and trying to reserve resources to do that.

Mr. COLLINS. Yes, sir. We will do our best to help.

The CHAIRMAN. Thank you.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Chairman, for joining us.

The Chair recognizes the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

First, let me give you a couple thank yous. Sometimes it kind of helps to start out on a positive note. I want to thank you, Dr. Collins and Administrator Davidson, for the assistance you have given us in fixing, to some extent, the sweet potato crop insurance pilot that we have in place. And I know we are still learning from it, because the growers in our area are quite pleased, at least where we are to date. And the fact that the changes that you made, I am even more pleased that you expanded the number to cover those adjacent counties where there were, I think, a lot of problems. But

I would ask that once this crop year has passed and you have time to review the pilot's performance, that you please keep us updated on what your findings are so that we can continue to fine-tune that.

I also understand that your office in Kansas City and in Raleigh have been working on an issue that we have discussed frequently, and that is the allowing of our peanut growers to insure their crops at a contractual price. And I appreciate your hard work on this issue and your cooperation with the Peanut Growers' Association in trying to reach some common consensus that will, I think, benefit all parties. And I appreciate that very much.

Now I also want to reiterate how important it is for our growers, because as they start moving toward this, and I know you are trying to get to a position on implementing this in the, I believe, 2006 crop year, because these changes really need to be effective November 1 so we can make that happen, so I hope you will keep in mind that so we can make that timetable fit.

Dr. Collins, let me ask a question of you. Last week, our friends in the majority passed a budget resolution that calls for the Agriculture Committee to make \$3 billion in cuts in farm programs. This is quite a bit less than the \$10 billion that the CBO estimated that the administration was proposing that we cut in the fiscal year 2006 budget. And it includes a great deal of interest, I think, of the people sitting behind you and a lot of people across this country, because it was about recommended changes in the Federal Crop Insurance Program. Now that we have a new target of roughly \$3 billion, can you share with us which of the agricultural proposals in the 2006 budget that the President has proposed or the administration preferred Congress to enact to achieve these \$3 billion in savings? And if you can't do that right now, can you tell us when the committee can expect to receive recommendations so that we can hopefully meet these things up and do the least amount of damage?

Mr. COLLINS. This morning, I can't tell you which of the various cuts the administration has in their budget. That would be highest to lowest priority. The best I can do for you is take your question back to the Department and ask the policy officials of the Department, tell them of your interest in this issue, and hopefully you will get some response from them.

Mr. ETHERIDGE. If you will do that, I would appreciate it.

Mr. COLLINS. I will do that.

Mr. ETHERIDGE. Because you know as well as I do, if you push in at one point, it is going to pop out somewhere else. We would just sort of like to know what we are talking about popping out.

Mr. COLLINS. Yes, sir.

Mr. ETHERIDGE. OK. Thank you, sir.

The administration's proposal for 2006 includes some that do not have a lot of detail. For example, the President's budget includes this statement, and let me share it with you: "The administration includes changes to the crop insurance program that will reduce the premium subsidies to the farmers as well as the subsidies in total through the participating insurance companies. These changes will allow farmers to become more efficient in their risk management and companies to deliver crop insurance in a more ef-

fective manner.” I guess my question is what exactly are the proposals behind these statements in the President’s budget? And to the extent that his budget attempts to achieve savings by reducing administrative and operating payments to crop insurance providers, how can that be done without violating the contractual provisions of the SRAs?

Mr. COLLINS. I will do my best to answer part of that. The first part, the—

Mr. ETHERIDGE. And the part that we don’t get answered, can I get something back later on?

Mr. COLLINS. Yes, sir. And perhaps Mr. Davidson can help and answer that as well.

Mr. ETHERIDGE. Thank you, sir.

Mr. COLLINS. What I would say regarding the proposals for savings, there are a number of parts of the President’s budget proposal for crop insurance, two that you referred to. One would be a reduction in premium subsidies for producers. The proposal is to reduce the premium subsidy by 5 percentage points for policies of 65 percent coverage or less and 2 percentage points for policies of greater than 65 percent coverage, the idea being, then, hopefully, that the difference would provide some incentive to continue buy-up coverage. Overall, if you look at the level of subsidies in crop insurance, the Government is now subsidizing policies at a rate of about 59 percent, and the farmer is paying about 41 percent. So 2 percentage points and 5 percentage points, that is a moderate portion of the subsidy that is currently paid by the Federal Government.

With regard to the administrative and operating expense reimbursement subsidy, I believe the proposal was for a 2 percentage point reduction in the administrative and operating expense reimbursement subsidy.

I have forgotten the last part of your question, Mr. Etheridge.

Mr. ETHERIDGE. Well, the last part was how does this keep us from violating the contractual provisions of the SRAs?

Mr. COLLINS. Well, Mr. Davidson, perhaps, knows the answer to that.

Mr. DAVIDSON. I am not a lawyer, but my understanding is that once Congress would pass this, that it would have to be implemented at a date where we would start the next year’s Standard Reinsurance Agreement.

Mr. COLLINS. Sir, it is my understanding that Congress has enacted laws in the past that have changed the SRA and those have been implemented with the subsequent reinsurance year. These proposals in the President’s budget wouldn’t go into effect until the 2007 reinsurance year.

Mr. ETHERIDGE. Mr. Chairman, I see my time has expired. Maybe we can have a second round and we can get a little more detail on that. If not, I would like to have a follow-up in writing.

Thank you, sir.

Mr. MORAN. The gentleman from Alabama, Mr. Everett.

Mr. EVERETT. Thank you, Mr. Chairman, and thank you for calling this hearing. This is a subject that this committee has spent considerable time on in the past years, and it is extremely important to our producers.

And Dr. Collins and Mr. Davidson, thank you for your service to agriculture, and thank you for being here today.

Dr. Collins, I have written you in the past concerning my interest in having an analysis done in the Risk Management Account. I think such a count might be useful to our producers. As a matter of fact, it was a producer of mine who brought up this idea, Mr. Ricky Wiggins of Covington County, Alabama.

The producer would place some pre-tax income in an account, and that would be matched using a crop insurance premium and administrative subsidies. The account funds could be used to self insure in the event of natural disaster. Can you tell me what you have done to evaluate this idea?

Mr. COLLINS. Yes, sir. First let me say, you were kind not to mention the tardiness of my response to your letter, and so I will publicly tell you that I apologize for not getting back to you sooner.

That is the bad news. The good news is that we actually did something about your request when you wrote to me. You asked if we would analyze one particular version of a farm savings account plan. And I would say that this is a broad interest to RMA, because these are non-insurance tools, and non-insurance tools are part of their mandate, developing such tools. This concept has also been in public debate since the 1996 farm bill when Farm and Ranch Risk Management Accounts first surfaced. Because of the general public interest in this, your interest in this, and our own interest in this, we did contract with the Economic Research Service to conduct an evaluation of farm savings accounts.

What we are doing in that analysis is to look at the Canadian experience. Canada started something called the Net Income Stabilization Account in 1991. They terminated it in 2003 for a variety of reasons. The study is going to look at their experience, and then it is going to look at the Farm and Ranch Risk Management Account concept. And then it is going to look at a farm program savings account concept where farm program payments, instead of going to the farmer, would go into an account. And then it is going to look at your proposal, which is to look at pre-tax dollars going into an account, matched to a certain level by the Federal Government, and then a payment triggered out under certain conditions.

That study is virtually complete. The contractor, ERS, is going to brief the Kansas City staff on May 10 on that study. Subsequent to that, they will deliver it to RMA, and then RMA will evaluate whether the contract has been fulfilled or not. We expect within a couple of months to be able to have that study public. So, within a couple of months, hopefully, I can deliver that to you and you will be able to see the kind of effects and analysis people think are related to those alternative farm savings accounts.

Mr. EVERETT. Of course I would certainly like to have a copy of that, and I am sure the committee would, also.

Mr. Davidson, do you have any comments on that?

Mr. DAVIDSON. I wouldn't have anything to add to Dr. Collins. We await the study and are anxiously looking forward to this.

Mr. EVERETT. Well, thank you very much for going forward with the study, and it is something of most interest to me and to some of my producers and, I am sure, to perhaps some other members.

Thank you very much.

Mr. MORAN. Thank you, Mr. Everett.

The Chair recognizes the gentleman from Georgia, Mr. Marshall, for 5 minutes.

Mr. MARSHALL. Thank you, Mr. Chairman. Thank you for holding this hearing.

I have got a couple of quick observations, and perhaps you could respond in writing to those observations, because I principally want to talk about something else.

You see the guy on TV who is pushing State Farm right now, and one of the commercials has him saying that State Farm is very aggressive about finding people who are committing insurance fraud and that that keeps down costs for policyholders. And that is State Farm's promise to you.

I have had a couple of farmers come up to me in different meetings that I have had in my District after the meeting and quietly tell me that fraud is relatively rampant where crop insurance is concerned. And one guy said this, "You know, if you want to find out who is doing it, just go to the ones who are making claims year after year after year after year. They are the ones that are doing this." And he also said that it is almost a cultural thing. There are farmers who wouldn't dream of engaging in fraud and are really frustrated that others are, because it increases their costs. And then there are farmers who just kind of live on it.

So I found myself wondering, "Are we State Farm, in the sense that do we have a private financial interest that motivates us, that incentivizes us to get out there and find the fraud that is being committed? Are we structured in a way where there are true incentives, sort of private sector incentives, to find fraud and stop it? I have a number of pecan growers say that they need a product that is going to cover multi-year damage done as a result of windstorms like we had in Georgia this past year. They are concerned that they are going to get a payment for no crop as a result of the damage done last year, but they will probably not have a crop this year and then maybe 10 percent or 20 percent. I mean, it is going to take about 10 years to overcome the damage it has actually done to the tree and that there really isn't a product out there that will cover that kind of problem. And I would be delighted in having comments about that, if you could, in writing afterwards.

And there are probably others. Like peach trees probably have a similar kind of thing, so it would be nice to have a product that addresses that.

I am mostly interested today in comments about this PRP business and the rule making and Crop1. And I haven't heard all sides of the story here, but I do understand a few things. And if I am wrong in my understanding, I would like to be corrected. One, the statute contemplates that we will make every effort to make crop insurance universally available to the small producer as well as the large producer. We have set up our premium regulations with that in mind. We know that those who are currently selling take a loss when they are selling to the small folks, make a gain when they are selling to the big folks, and maybe some efficiencies can be introduced into the system, but basically the system does contemplate that there would be proper service given to smaller farmers. I almost feel like rural areas are under attack nowadays with

the Universal Service Fund, Medicare and Medicaid cutbacks, DRGs. I mean, you can go through any number of lists of initiatives that really damage rural areas, because they are not Wal-Mart. I mean, we don't have, because of the sparseness of the population and smaller producers and et cetera, you just can't inject into that kind of environment Wal-Mart type efficiencies and not expect that there is going to be an awful lot of pain.

Now what I understood was that Crop1 was permitted to do the PRP on the assertion that it would be selling online, and that was the efficiency that it was introducing into the system. I also understand, and I may be wrong about this, that that really didn't work and that they are out there competing now by, essentially, "cherry picking", going after the big producers, which then limits the amount of premium profit that is available to agents to meet the needs of the smaller producers. And their argument is that they have got all kinds of efficiencies that are unique, and yet I understand that there are some big nationwide sellers that have been in business for a long time that arguably have similar or greater efficiencies, more experience, et cetera.

So I am not sure why, with the rule-making process still pending, that you would have anybody out there as a PRP at the moment, why you wouldn't say, "OK. No PRP, no premium reduction until we finish with this rule-making process and we take into account all of these different things that we would like to accomplish." And I would just like comments about that.

Mr. COLLINS. I think both of us ought to respond to this.

First of all, I want just to address the question of why Crop1 is out there. We are required by law to approve PRPs. It is not the choice of the Department of Agriculture. Approving a PRP does not require regulation. There is no regulatory requirement in the statute. The statute contemplates regulations or procedures or other vehicles for providing guidance to companies. As to why there are not other companies out there even though they have efficiencies, Crop1 was the only company that came in for the 2003 crop year and asked for a PRP. Crop1 was the only company who came in for the 2004 crop year and requested a PRP. So clearly, that is why they were the only company out there. And because they were already out there, they submitted their plan of operations early for 2005, and they were approved early, before we realized the difficulty that was going to result from all of the other submissions we got and the possible consequences, potential consequences, some of which you mentioned. It was only at that point then, because of the numerous issues that were raised by everybody in the crop insurance community, that we went to rule making. So the company is out there now because of the evolutionary process by which we entertained the submissions for PRP and the process that we went through to approve PRP.

I will ask Mr. Davidson if he would like to comment further on this.

Mr. DAVIDSON. Well, I would like to address the concerns that you have expressed over small and limited-resource farmers, because that is a very important part of what we do to try to make sure that this program works for everybody. And our concerns are not only with Crop1 as an individual party, but also with every

other company to make sure that the natural tendency to go to the higher value policy doesn't pertain here, that people are still serving smaller farmers. What we are willing to do always is, if we get a complaint that a farmer has approached an insurance company through their agents and has been denied the opportunity to get coverage, of course we are on that, as they say in Texas, like white on rice. We will make sure that farmer can get policies. I am aware of companies generally in the industry who will pay a premium to their agents, a bit higher commission, to serve smaller farmers. That practice exists.

With regard specifically to Crop1, we have been very concerned to make sure that this program is delivered to everybody. For that reason, we told Crop1 at the beginning, "You have to offer the discount to every single one of your policyholders." The proposed rule also includes that notion that anybody, any company that would provide this, once they provide a discount to one, they have to provide it to all so that there would not be the opportunity. However, we need to also monitor the actual performance of those companies. We require in the proposed rule that a marketing plan be submitted, demonstrating how the company will, in fact, serve the small and limited-resource farmer. And we also require a follow-up to that to see if the actual results are consistent with that plan. Specifically, we have monitored the size of policies that Crop1 sells. And I can't get into confidential business information in a public setting, but I would report about two-thirds of the policies that Crop1 sold in 2004 were 250 acres or less. So that gives you an indication.

Now how does that compare to all of the other companies? You can't really look at the average of all of the other companies. You have to look at every company individually. But we are looking at those kinds of measures. Does Crop1 sell high-dollar policies? Yes, they do. Is their average higher than the industry average? Yes, they are. But they are not the only company that has premium per policy higher than the industry average.

Mr. MARSHALL. I see my time is up.

Thank you, Mr. Chairman. I will wait until the next round, and maybe we can continue.

Mr. MORAN. Sure.

The Chair does not anticipate a second round, but it seems to be growing demand for additional questions.

The gentleman from Nebraska, Mr. Osborne, is not a member of the subcommittee, but I would ask unanimous consent that he be seated at the dais and be allowed to ask questions of the witness. If there is no objection, the gentleman from Nebraska is recognized for 5 minutes.

Mr. OSBORNE. Well, thank you, Mr. Chairman. Thank you for your tolerance in having an outsider sit down with you.

And thank you, gentlemen, for being here this morning.

And as you know, and particularly Mr. Davidson knows, we have been really concerned about multi-year drought in the upper Midwest. And Mr. Moran and myself in 2002 beat our heads against the wall for several months trying to figure out what we could do, because the administration was saying, "Well, whatever you get has got to come out of the farm bill," and we couldn't find anything.

And finally, the Conservation Security Program appeared to be miscalculated, or at least there was some extra money. And so in both 2002 and 2004, we have been able to get a substantial amount of drought relief. However, we are still in the grips of the drought, and we don't know if this is a 5-year drought or a 30-year drought. And I would have to say that the drought protection that we got probably saved a fair number of people from going under. And so my understanding is that you are working on it, and you have got a couple of products in process, but you are maybe 2 years out.

Mr. DAVIDSON. At least.

Mr. OSBORNE. And the problem we have is that, you know, the Conservation Security Program may not keep on being the gift that keeps on giving. And so, we are in a bind, and I know you can't rush the process, but I just wanted you to be aware that this is really an ongoing concern, because we don't see any tremendous let-up in the drought at the present time. And so anything that we can do would be appreciated.

The other item I just wanted to bring up that maybe Dr. Collins could comment on is that I went over to the European Union, oh, 6 weeks ago or something like that, and their commissioner of agriculture was patting herself on the back for the fact that they are going entirely decoupled payments. And so it led me to believe in our new farm bill, \$19 billion may be in trouble. And I wondered what your speculation would be of some type of total farm income revenue insurance. Would it bear scrutiny in the new farm bill? I mean, this is way out. It is kind of off the charts in terms of speculation, but I wondered if that would be one way that we could satisfy some of the W-2 regulations and being in compliance.

Mr. COLLINS. I don't think it is that far out. I think you are right that the world is expecting a substantial reduction in domestic support commitments for production and trade distorting subsidies. Our \$19.1 billion cap could well be half that when this round is over. Currently, our crop insurance premium subsidies are considered in the amber box. They are not commodity-specific, though. They don't count against the \$19.1 billion. They count against the \$10 billion cap for non-commodity-specific support. Whole farm insurance, presumably, at least some of those subsidies would be amber box. The WTO disciplines for insurance limit the coverage level. When the coverage level gets too high, then the subsidies are considered amber box support. When the coverage levels are really low, such that they are not amber box support, then they don't do farmers much good. So you sort of have that tension.

But I think that if we continue to have these multiple boxes, an amber box, the so-called blue box, which is on the table, a non-commodity-specific amber box, then the production distorting support, like loan rates, can go into the \$19.1 billion capped box. And then the crop insurance, or whole farm insurance or whatever, could fall into the non-commodity-specific box for which there is room. There is room there now. The problem with that box right now is that is where all of the counter-cyclical payments go. And the theoretical maximum of counter-cyclical payments is almost \$8 billion. And that box is capped at about \$10 billion. So if we could do something with counter-cyclical payments and make some room in that box

for crop insurance subsidies, then I think you could accommodate this expanded insurance.

Now as you say, this is all down the road. You are juggling about eight balls in the air here when you are trying to do deal with domestic support and what you are going to do with the WTO boxes. I am encouraged that there ought to be something we can do in this area, and I am enthusiastic. Mr. Davidson and I talk a lot about Adjusted Gross Revenue Lite as a very important tool for the future. I mean, that is what we think is going to emerge, over time, as our premier whole farm policy. So I am encouraged hopefully that we can do something in this area.

I would also go back to your first comment about drought, and you focused on the multi-year disasters. We had two projects in the drought area that we have been working on the last 2 years. One is the multi-year disaster, and the other is to develop new insurance products for rangeland, pasture land, forage, and hay. And we are making more rapid progress on those. We expect to have two of those products before the Board of Directors, I think, this fall. And it is very possible that we could have such products for sale in 2006. Those are precipitation index products, rainfall index products. They work off of satellite vegetation measures. They work off of proxy crops. They are combinations of a whole bunch of different approaches, but we have got 400 or 500 million acres of pasture and rangeland, and I think last year we had 15 million acres of it in our rangeland pilot. So there is a tremendous opportunity there to deal with drought on grazing lands. And I think we are moving along faster in that area than we are on the multi-year disasters.

Mr. OSBORNE. Well, thank you for all of the work you are doing.

And I yield back, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Osborne.

And the Chair recognizes the gentlewoman from South Dakota, Ms. Herseith.

Ms. HERSETH. Thank you, Mr. Chairman.

And just to follow-up there, Dr. Collins, I am glad Mr. Osborne asked that question, because we have the same problem in western South Dakota. And I am just wondering if you are saying that it is possible that two products to deal with the drought, to deal with rain land issues, for ranchers, because we know that for our ranchers it is their need for water and their need for grass. So if it is possible that two products will be before the Board for consideration and actually make them available by 2006, do you see that then, based on the work of the pilot program, of being ahead of the game as to where you are with your thoughts on the AGR-Lite with the diversification factor, with dealing with the caps on liability, et cetera?

Mr. COLLINS. I don't know if we are ahead of the game on that. We are probably neck and neck. I think both of those products would be helpful for livestock producers. We now have AGR-Lite in 17 States for 2005. I think it goes to 18 States next year. And as I indicated earlier, that is a product that still needs a lot of work to get it more appealing to producers. I think we sold 92 policies in 2004. I think for 2005, it is like 160 or something like that. Percentage-wise, that is a big increase, but the number is still microscopic. They will serve different needs. They will both help fortify

farm income for the producer, but one will kick in when the whole farm income goes down, and the other will kick in when you lose your forage. You are not selling your forage; you are selling your livestock. So when the value of your sales goes down, that is when AGR-Lite could kick in, but when you lose your forage, then you could get a payment to help yourself go out and buy more input and more forage to feed your animals.

Those forage products will be pilots, and we have not looked at all of the potential pilot area yet. And we haven't even approved those. We have a contract, and the contractors are ahead of schedule. They have indicated that they thought they could bring a product to the Board in the fall of 2005. If the Board were to act, it is possible it could go into place for 2006. And depending on where the pilot area is, that would then help producers.

Mr. DAVIDSON. Just for one of those products though.

Mr. COLLINS. Just for one of them.

Mr. DAVIDSON. We can get four, and we think the gestation of these products, it looks like one may be possible to implement for 2006.

Ms. HERSETH. Well, I appreciate that, and I would just like to reiterate the comments of Mr. Goodlatte that as we lay the groundwork here for 2007 and the farm bill that not only do we have products available, other information that can inform our efforts based on the resources that you anticipate.

And if I could just move now to Dr. Davidson. On your written statement here for the committee as it relates to Asian soybean rust and where we are with the crop insurance products here, you state on page 4: "RMA's communications encourage insured producers concerned about the impact of Asian soybean rust use good farming practices by seeking and following recommendations of agricultural experts to control soybean rust." Can you elaborate on what kind of guidance you are giving producers on what are good farm practices as it relates to treatment and preventing the spread of the disease, what occupations constitute a local expert, and also, in areas where, perhaps, the producer doesn't have available the certain chemicals, what is the guidance there for the policyholder and the companies?

Mr. DAVIDSON. We have tried to be very careful with this one, because the introduction of this disease is not a small issue. It is a very large issue primarily because it changes the management dynamics of the crop. Soybeans have heretofore not been a totally simple crop to grow and to manage, but they are not the most complex, either. The introduction of this disease introduces requirements for careful monitoring that have not been required before. It requires application, very quick application of curative, sometimes preventive measures. And so this is a new management situation.

We have always had the requirement that a farmer do the right thing by their crop to be able to get the full measure of a claim when they have a loss. And so good farming practices are not a new item to crop insurance. But because of the introduction of this heavier management requirement, we have felt to emphasize that responsibility here in our communications, we will not be the determiners of a good farming practice at the outset. The farmer needs to look to local experts, the extension services, certified agriculture

consultants, crop consultants, et cetera to be able to do that, universities. And we have listed those in our communications. And we will have further guidance coming out shortly when we issue our good farming practices procedures as well.

And so when there is a dispute between the insurance company that adjusts the loss and the farmer as to whether or not that farmer pursued good farming practices, the guidelines that we will set forth will allow a due process to be able to have the farmer appeal that adverse determination up to the agency. And so we hope that that will address the issue.

I don't know if I have answered all of your question.

Ms. HERSETH. I think you have. And my time is up, but I am glad to hear the due process component here, because I think it is such a new disease, because there is going to be a time of, I think, 2 to 3 years for there to be more consensus about what the good farming practices are here and those that you have just identified as local experts to share this information as part of a network that you are a part of that we have that opportunity for the producers.

Mr. DAVIDSON. Absolutely.

Mr. MORAN. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. Davidson, in a former life, I am a CPA, but I was also an auditor. I am particularly interested in the data mining comments that you have made, and I have got some information about that. I have got one of those datamining sites right near my district. Can you speak to us about any conflicts between FSA and RMA that make that program less effective, and also, RMA's position on continuing that program beyond 2005, given what appears to be a really good dollar return versus what we spent on datamining and the other collection processes? And do you have enough enforcement investigator types to take advantage of all of the data that you are getting out of the datamining?

Mr. DAVIDSON. Sure. Let me just first say that our experience with datamining has been very positive. It helps us to identify general trends of losses. For example, the year after year after year claims that Mr. Marshall, I believe it was, identified, we actually have a way of identifying farmers, through datamining, that are actually filing claims on a regular basis. And that is one of the groups that we target for further spot checks and investigation. We believe that we have deterred hundreds of millions of dollars of what would have been claims through the datamining and the related spot checks that FSA personnel handle.

I am not aware of conflicts between FSA and RMA. Can we work better together? Yes. And as soon as we get feedback that something is falling through the cracks or maybe we are not keeping each other up-to-date, we make those adjustments. And so Mr. Little and I are very close together, and we talk, and we are very agreeable on those kinds of things.

As to the continuation of datamining, as you know, this has been funded through a separate funding mechanism, and we are running out of money on that. We have identified that in the President's budget for 2006 and have requested another \$3.6 million for that funding. Beyond that, to continue it, we would require additional funding. We don't have the funds within our salaries and ex-

pense budget to continue that. We need to have that additional funding.

So we think it is valuable. There is a high return. It leverages our investigatory staff. Mr. Mike Hand is here today sitting behind me who heads that investigatory staff. We have about 100 people that directly are involved in that. And we are leveraged even further by all of the county offices by FSA that go out and do these spot checks and follow up on these things and the county committees.

So I think the system is working well, but the funding requested in the President's budget is important to continue it.

Mr. CONAWAY. Are you aware of any artificial or legal barriers between sharing of information within the RMA system and FSA and whatever else that the datamining folks need to get data to continue the work or expand the work? Are there any legal issues that we need to be aware of?

Mr. DAVIDSON. Mr. Little probably needs to address that, and I would be happy to pass along to him and ask him that, but he has indicated to me that there are some constraints in terms of how much they can share.

Mr. CONAWAY. OK.

Mr. DAVIDSON. It is more contractually related and, to some extent, possibly even limitations in the detail that they can share.

Mr. CONAWAY. All right. Well, to the extent that those would improve the process and reduce fraud and abuse, I think I would be interested in knowing if there is something that can be done, given privacy concerns and those types of things, to make sure this continues.

You have got an estimate of what you have deterred of \$300-plus billion.

Mr. DAVIDSON. Yes.

Mr. CONAWAY. Any sense of what the actual recoveries have been from false claims, so we can compare to the hard dollars? We are spending hard dollars on the data mining. Are we getting hard dollars back that are in excess of that?

Mr. DAVIDSON. We recovered \$24 million last year.

Mr. CONAWAY. And we have got \$7 or \$8 million in it now? So a 3 to 1 return at this time in hard dollars?

Mr. DAVIDSON. Well, last year's contract was about \$3.6 million.

Mr. CONAWAY. OK. But this is the third year of the program?

Mr. DAVIDSON. Yes.

Mr. CONAWAY. OK. So, in effect, this investigatory program is paying for itself on a dollar for dollar basis in addition to the deterrent factor that you get for folks just not filing false claims?

Mr. DAVIDSON. Yes. When you include the deterrent factor, it is a 7-plus to 1 return.

Mr. CONAWAY. OK. I have been in business before. That is not a bad return.

Mr. DAVIDSON. If I could get that day in and day out, I would love it. Yes.

Mr. CONAWAY. All right.

Thank you, Mr. Chairman. I yield back.

Mr. MORAN. Thank you.

The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. I thank the chairman.

Mr. COLLINS, it has been my pleasure to work with you over many years now on crop insurance. I think we started this journey looking at the need to expand coverage. The more components of agriculture you have in the pool, the broader the spread of risks, and the more likely you can diminish the cost to the Treasury. You indicate that substantial improvements have been made since the 1994 reforms. I believe you said we went from 34 percent participation in crop insurance to what was it today?

Mr. COLLINS. I think it was 38 percent in 1994 to about 80 percent today. That is participating acreage as a percent of eligible acreage.

Mr. POMEROY. That is a substantial improvement. The second goal of ours was to make certain that we had reasonable risk coverage for the financial exposure to the farmer. Now that means they have to have a coverage level they can afford that reasonably protects the investment they have got in their crop. You cited some statistics on buy-up achieved under ARPA that also show we have made some real headway on that one. What were those statistics again?

Mr. COLLINS. In 1998, 8 percent of acreage was ensured above 65, and in 2004, it was 58 percent.

Mr. POMEROY. These changes in these programs, both of the 1994 reforms, the ARPA legislation, painstakingly put together over many years, and therefore I am concerned that we have an administration budget recommendation that proposes such a significant reduction in the Government's support for crop insurance. I am wondering if the RMA Board was consulted when the Office of Management and Budget was doing its work on the President's 2006 budget recommendation.

Mr. COLLINS. The answer to that, Mr. Pomeroy, is no.

Mr. POMEROY. So for all of the work done to build the plan in Congress, we certainly weren't consulted on those cuts. For all of the work you have done to administer the program, interesting that somebody over at OMB figures they could just know more than all of the rest of us and impose such dramatic budget reductions. I certainly hope that we contemplate carefully your comment, Mr. Collins, as we look at consideration to the administration's budget requests.

Mr. COLLINS. I would say one thing about that. After the proposals did surface, they were discussed by the Board. The Board, of course, has four producer members. One member is experienced in the insurance industry, and one member has been a regulator. And they have provided feedback to RMA on how they thought the effects, the repercussions would be of these proposals.

Mr. POMEROY. Well, I am a member of the Agriculture Committee. I have put my notions forward, too. I think that they will do harm.

Mr. COLLINS. Yes.

Mr. POMEROY. I think they will do harm to the crop insurance program we have built. Now the cost to private partners, in other words this is a public/private partnership. We pay the private partners. Their own expense reimbursements have been declining significantly from, again, my own experience with this began in '93.

I think the reduction has been something like they were compensated something like over 30 percent and now what is it?

Mr. COLLINS. Well, the percentage reduction has gone down, but the reimbursement per policy has gone way up. The total dollars have gone way up. The percentage of total premium has gone down, but what has happened over time is as people have bought up to these higher coverage levels, the premiums have gone up for those policies. That is no more work, in particular, for an agent, and yet the dollar value has increased because the total—

Mr. POMEROY. No, I understand how that works. I am not sure I agree with you on the no more work part.

Mr. COLLINS. Well, it depends on the policy.

Mr. POMEROY. I think appropriate risk counseling to a more sophisticated policy is a lot more work than CAT coverage.

Mr. COLLINS. I grant you that. There could be some more work, but I don't think, in many cases, it is exorbitant.

Mr. POMEROY. The question I have is you indicated risks in adding competition into a previously regulated environment. You indicated that this new competitive market could dislocate the agents to some degree and it could possibly result in under-served subsets within agriculture, most likely small farmers. You also indicate there might be very selective underwriting with high-risk areas or smaller producers left aside. I am wondering how RMA proposes to oversee a competitive environment. Do you have additional staff? What kind of research are you doing to make certain that the challenges you yourself site in your testimony do not result.

Mr. COLLINS. Well, I would like to be sure that it is clear that I said those things in response to the question of what are the issues that you ought to be concerned about. Those are not necessarily predicted outcomes. Those are the kinds—

Mr. POMEROY. You indicated that they are potential challenges.

Mr. COLLINS. OK. Right.

Mr. POMEROY. I didn't say that you said that they were predictive or likely outcomes but you acknowledge that they are possible.

Mr. COLLINS. Yes.

Mr. POMEROY. Now in the event that you are leading the charge into the competitive environment what are you doing to oversee this to make certain that these possibilities do not result?

Mr. COLLINS. I will mention a couple of things, and then I will let Mr. Davidson mention a couple.

This was much of the discussion we had in crafting the proposed rule. And in one of the provisions in the proposed rule is that when a Premium Reduction Plan is approved for an approved insurance provider, they have to automatically offer that premium reduction to every one of their customers. We had a debate about whether customers could sign a waiver and opt out of it or whatever, but no, we decided in the end that it automatically had to be made available to every single customer. So we think that that is one step that will help in this issue of discrimination.

A second issue was that in the proposed rule we require the premium reduction to be the same for every plan of insurance, every policy, every commodity, every State. And we think that that is an-

other issue that would help in preventing some playing one producer against another.

Perhaps another important thing that is in the proposed rule is that when the plan of operations is submitted by the company, they have to have a specific marketing plan that details the promotion efforts they are going to undertake to make the premium reduction known to small farmers, minority farmers, women farmers, and limited resource farmers. And then we require an annual report from the company back to RMA telling us exactly how they fulfilled that plan and giving us specific empirical data on their sales to those four groups of producers that I mentioned.

Regarding the adequacy of RMA's workforce to oversee this, I would ask Mr. Davidson if he would want to comment on that or make further comments.

Mr. DAVIDSON. You have been an insurance regulator, and so you know some of the things that we would have to deal with here. Market conduct has not necessarily been a major part of our regulatory activity to date except that now that Crop1 has been offering this, we have increased our evaluation of their market conduct, how they sell, how they represent the product and their marketing plan.

We have always, as I said earlier, been very concerned in overseeing how all companies make our products available to everybody. And so we respond quickly to complaints. But under this new system where everybody, or a large number of these companies, are delivering discounts under possibly varying plans, likely, we would have to increase the market conduct aspect of our oversight, look at how companies are representing, look at how accurately they are presenting to policyholders the options available to them, et cetera.

So it would represent a change in how we do things in the agency. Do we have the resources to do that? We would have to shift those resources from other uses and modify how we do things.

Mr. POMEROY. Mr. Chairman, yielding back, I would just say that I thank you for your testimony. I think that it is absolutely candid and on point. You have a competitive environment, and you need to oversee the competitive environment. RMA has not had that kind of resource allocation to market policing, because they haven't done this before. Obviously without giving them resources to do it, some real questions of internal capacity, even the reallocation of resources within the agency raise questions in terms of it is not like they have got fleets of people just sitting around now that could take on new assignments.

I think that we need to look at this very carefully. Chairman Grassley on the Senate side has called for a GAO investigation. I think maybe a third-party look would be appropriate. And in saying that, I am not implying anything about Crop1, whether they have done it right or whether they have done it wrong. I don't know what they have done, but I think a third-party look would be helpful.

I also think that perhaps we will want to consider with this subcommittee further exploration of this. This committee's charge is not to protect the fattest agent commissions possible. That is not what this is about. What Dr. Collins indicated, though, is as we move from a regulated environment into a competitive environ-

ment, there are a host of issues raised ultimately getting to whether or not farmers are comprehensively served and served in the manner that we hope they are in delivering this risk protection product. I think we really want to know what is going on even while RMA seems to be moving, in my opinion, with endue speed at this new rule.

Thank you, Chairman.

Mr. MORAN. I thank the gentleman for his comments.

The response of Dr. Collins was responding to my question, because I do think there are issues that affect the overall industry related to this issue of PRP. I look forward to working with the gentleman to see that the right resources and the right answers are found in these questions.

I also will smile at the gentleman for his offer to yield back the balance of his time. Not once, in my experience with you, Mr. Pomeroy, has that ever been the case, although you have said it each and every time.

The gentleman from Alabama, Mr. Bonner.

Mr. BONNER. Thank you, Mr. Chairman, and I have to apologize that I have been in and out of the committee room so much today I feel like a ping pong ball. And I hope that in asking these questions of our panelists that they have not already been raised, and if they have, I would invite them to tell me that it has already been submitted for the record.

My district in much of the Gulf Coast recently went through a storm called Hurricane Ivan. And many of the timber growers in Alabama and Florida and Mississippi as well as many of the nurserymen, which is a growing industry in my District and throughout the Southeast, felt very disappointed after the hurricane came and left and after FEMA and all of the other Federal agencies that came in to provide assistance that there had been seemingly little effort given to the issue of crop insurance, either for nursery growers or for the timber growers, not only in the South, but throughout the country. And I would ask either one of you who would be comfortable in answering this, what, to your knowledge, effort has been undertaken in the past to look at either timber or nursery products as a possible add-on to this issue?

Mr. COLLINS. I can start with the timber part, and maybe Mr. Davidson would handle the nursery. And I divide it that way, because a couple of years ago, we did have a private company submit for approval by the Board a timber insurance product. The Board did not approve that product. The reason we didn't, the primary reason we didn't, was that private sector timber insurance was available. And we are prohibited, by law from approving a product for which there is a private sector product available for sale. And I believe that is still the case. I believe that company started selling timber insurance, including for plantation stands, in 2001. And that is available today. And that does have hurricane as a covered peril under that product. Wind damage is a covered peril. So based on that, we made the determination a couple of years ago that it was not in our legal authority to cover timber.

On nursery, that is a different issue. And Mr. Davidson, maybe, would cover nursery.

Mr. DAVIDSON. RMA has had a nursery product for quite a while. In fact, there has not been a high level of buy-up by nursery owners in that product, and most insure themselves at the catastrophic level. And not all nursery owners buy crop insurance. In fact, a small portion of them do.

With that having been said, a nursery represents the fourth largest product that we have in our program, even with the small participation, and so there is tremendous potential that indicates that there are probably many more that could buy insurance and more that can buy up. We toured the hurricane-affected areas and met with nursery growers to identify what we could do better to have a better coverage for them and identified several items. And the Board actually took action on one of those items, a pilot to allow nursery owners to buy an endorsement or an enhancement of the price of elections in our product, the price that would be ascribed to lost nursery production.

We have \$3.6 billion of liability in nursery products right now, but if nursery growers buy nursery coverage on the same level that wheat growers buy wheat coverage, that would be the No. 1 product in our business. We are in the process of enhancing the nursery product itself, and we will shortly be coming out with the necessary regulations to begin doing that. We have been working with the Nursery Growers Association for a number of years and enhancing that. So we hope that ultimately we will have a product that will be very attractive and very useful and very used as well.

Mr. BONNER. Thank you.

Thank you very much, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Bonner.

The gentleman from Louisiana, Mr. Melancon.

Mr. MELANCON. I was just curious. I have not seen to date, and I have not heard of any demonstration proposals for sugar cane. Is there a problem there, or that no one wants to deal with it or—

Mr. COLLINS. Well, you have stumped me. Sugar cane is not in my brain, so I am not sure. I don't think it is one of our pilots.

Mr. MELANCON. On several occasions a year, we have—

Mr. DAVIDSON. We have sugar cane coverage.

Mr. MELANCON. Yes, the policy that I saw a number of years back was such that you could never get to the threshold, and I think that was the problem. You had started with basically a standard form for crop insurance where you had to have, what, a 50 percent threshold of loss before you could make claims.

Mr. DAVIDSON. It depends upon what level of coverage a producer will buy. If they buy up to the 75 percent, I am not sure if we go higher than that for sugar cane, or 80, we go up to 85 percent for some of our products, but if they only buy the 50 percent, the catastrophic level, it takes a true catastrophe to get to that level.

Mr. MELANCON. It does, and part of the problem, if I recall correctly, was that the only people that were actually buying up were those whose lenders were requiring it. And usually those were the poorer farmers who the lenders wanted to make sure that they were going to get their money out. And so the better farmers, the policy just didn't perform for them in any way, shape, or form cost-wise or otherwise. And I was just wondering of maybe you could

revisit that and see if anything can be done to make it a better policy.

Mr. DAVIDSON. We would be very happy to receive any suggestions from the producers on how we might be able to improve the product. We regularly work with commodity groups to improve our products. I will say, though, that if a person just chooses not to buy enough coverage, that is a choice that they would make.

Mr. MELANCON. Here is an illustration, because sugar cane is not an annual. We will plant sugar cane this year for next year's crop and then successively harvested, 3, hopefully 4 years. In the incidents with Isabel and Isador came in, we had 40, 50, 60 inches of rain in the harvest season plus the storms that knocked the cane down. We never got to the 50 percent threshold that year. The next year, the crop dropped off some. The next year, it dropped off dramatically. And because of the returning nature of the plant, the policy just doesn't take care of the future losses. So when you are making the heavy investment of making that plant this year for successive harvesting 2 and 3 years out in the future, a policy that addresses annual crops just doesn't work for sugar cane in many ways.

And so I think that if there is all possible to put together a task force to try and sit down. And I have asked this when I was with the sugar industry, and of course it was, "Yes, we will try and take a look at it." Maybe now that I am in a position where I can actually help have people to keep that moving and to maybe explore it a little deeper, I would sure like to pursue it, if I could.

Mr. DAVIDSON. Well, we would be very happy to work with your office and those of your constituents that have an interest in that.

Mr. MELANCON. Thank you, sir.

Mr. Chairman, if I have any time to yield back, I would be happy to.

Mr. MORAN. Thank you, Mr. Melancon.

The gentleman from North Dakota has never determined that. Just saying it does not make it so. You, sir, have been a real gentleman, and I appreciate your willingness to yield back your time.

The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. And I certainly appreciated your comments about avoiding ad hoc disaster programs in the future. I think we have to figure out a way to do that, and one of the things that I have introduced a piece of legislation that would allow to take two existing products that we have, a multiperil and putting the GRP on top of that, increasing the amount of coverage. And the GRP is triggered much like a disaster policy is, a disaster program, that if the county is declared a disaster, if the producer's average yield is below the county yield, it triggers that. We have sent that over, Mr. Davidson, for you and Dr. Collins to look over. And we anxiously await your response on that.

Mr. DAVIDSON. Yes, and I know I have reviewed that and given comments, and it is going up through the Department. Like I said in the last hearing that we were in, I thought that that was a very good idea to try to address the issue of multiple year declining yields. I wish Mr. Osborne were here to hear that. So we are encouraged by that structure. We don't see any administrative challenges with it. Typically a concern is that if you have higher than,

say, an 80-plus percent coverage by a farmer, it might reduce their incentive to do good things on their farm. But since this is an additional coverage that is not directly related to their production but related to a group, we think that it mitigates that concern. So I don't know how it will come out from the Department, but we have made our comments through the process, and I assume that you will be receiving that soon.

Mr. COLLINS. Before Mr. Davidson gets too optimistic about this, I must say that could result in two indemnity payments on the same crop on the same acre, which of course we can't do. We don't have legal authority for it now. But what it reminded me of, and of course this won't influence us in our review of our product, was the old movie "Double Indemnity" starring Edward G. Robinson and Barbara Stanwyck, you may recall, where bad things happened with the double indemnity insurance agent.

Mr. NEUGEBAUER. Well, and I appreciate that, but as you know, this is just a layering of the coverage, and there is not double payments going on. We certainly don't want to do that. But it does allow the producer to have higher coverage. You can't farm to this program.

I want to move forward to—

Mr. DAVIDSON. Could I just add, if you don't mind, that this is one of those examples where it would probably take more money and more authority than we currently have to be able to do something?

Mr. COLLINS. Yes. And my comment was strictly a joke.

Mr. NEUGEBAUER. I understand. And we have had scoring, and we understand. That is the reason we have introduced the legislation, because you and I had the conversation that you think you had administrative authority to do that, and you thought that you did not.

I want to move forward to another one of my favorite subjects, and I am sure that you don't have to guess what that is going to be, but I want to talk again, and it is additionally about where we are. I have had some conversations last week with Mr. Hatch on the deferred appraisal. And I am kind of getting mixed signals of where we are going in that. It was earlier thought, with some meetings that were held with cotton growers, that we were heading to a reduced deferred price-hold period because you weren't receptive to reducing the late planting period. My conversation with Mr. Hatch then last week is we are now talking about shrinking the late planting period and leaving the appraisal period in place. And so I am kind of curious as to which way we are headed on that.

Mr. DAVIDSON. I haven't yet seen the staff recommendation on this. The groundwork is being laid, and we appreciate you spending the time with our staff to make some creative suggestions on how we might deal with this. I am awaiting that, and we will look at it, but the fundamental question that we have is that once seed is placed in the ground, obviously you have to wait until it has had a chance to germinate. If there is no moisture, but there might be moisture within a reasonable period, then, of course, we have the obligation, as the farmer does, to make sure that that crop has a chance to germinate and to come to full fruition.

So it is a challenging issue. We do have this deferral period in all of our crops. Argonomically, it takes time, once you put it in the ground to go up. So if you are at the end of the planting period and you put the seed in the ground, you still need to give it a chance to come up before you pay an indemnity.

Mr. NEUGEBAUER. And I agree with you. I think one of the things that concerns a lot of the producers in our area is that because of the levels of coverage that many of them are able to do, that the crop insurance program is really not the incentive there for the producers in my area. The crop incentive there is they have got to produce a crop. And so if the first crop fails, they have got to make some very crucial planting decisions as to what that second crop is going to be and when they can get that second crop in the ground. And particularly our dry land guys are very sensitive to—if this crop is failed and then getting something back in the ground to obviously capture some moisture to plant that, then it really becomes two issues there. One is what about a crop that is planted prior to the late planting period and then one that is planted during the late planting period, because the one that is planted before, you know, would not only be stretching it out 21 days for that producer, now we are stretching it out for a much longer period of time there. And so hopefully, and one of the things that you know our goal was to try to do something for the 2005 crop year, and I thought we were headed in that direction, but we are very close to the 2005 crop year.

Mr. DAVIDSON. We are getting close, aren't we?

Mr. NEUGEBAUER. Yes, we are. And I am hopeful to hear soon.

Mr. DAVIDSON. Well, thank you. And like I said, I expect that to be on my desk in the very near future, and to be able to respond.

Mr. NEUGEBAUER. Thank you.

Thank you, Mr. Chairman.

Mr. MORAN. You are welcome. Mr. Neugebauer, I am very familiar with the first part of your first question. That has been a theme of yours. I would like to have you and I discuss the second part of your question and see if I can be of help.

Mr. NEUGEBAUER. Thank you very much.

Mr. MORAN. The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Yes, Mr. Chairman. Thank you very much. I am sorry for my tardiness, but we had another committee hearing, but I did want to get over to this one.

I wanted to ask both of you or either of you about ARPA. And in the act, it explicitly prohibits ARPA from conducting any of its own research into the development of new products. Has this been a positive change, in your opinion, or should ARPA have the ability to do research?

Mr. DAVIDSON. The act is very clear that we are prohibited from conducting research and development. There are some aspects of research and development and under certain conditions that we can still be involved directly, but they are very, very limited in their scope. ARPA, as you know, requires us to hire third-party contractors. And it imposes on the product development process a very deliberative process. As we have thought about this, and we have worked with this a lot and deal with it a lot to make sure that we are in compliance with the requirements, we believe that

there are quite a few positives but some challenges also that have come out of this. The positives are that the deliberative process and the involvement of the Board of the Directors and the engaging of third-party experts, which has actually kind of produced a group of experts that we rely upon on a regular basis, is a positive thing. It has helped us. It has augmented the RMA staff. And so that is good. And there is a considerable amount of funding that is available for new product development.

Some of the challenges that we experience are in the uncertainty about what we can and can't do, and we are always watching very carefully with regard to that. But the funding mechanisms that are provided are very compartmentalized, and there is only a certain amount of money that can be used for this feature, for that feature, and for the other feature, and what we find is that at the end of the day when we have a new product implemented and operating, that there is no additional money for us to actually maintain that product and keep it going or to pay for the additional infrastructure required to support that product after a year or two. And so that has put pressure on our operating budget to try to support those products.

So the fractionalization of the funding mechanisms, if there were just one pool and we had authority to use that pool for all of these different activities, that would be a heck of a lot better than it currently is, as well as the fact that we don't have continued funding to support the products. Those are two major issues that I deal with all of the time in trying to manage the affairs of the agency.

Mr. COLLINS. If I might say on the other side of that, when ARPA was enacted, I think one of the motivations behind some of the provisions Mr. Davidson just talked about was that the public, insurance companies, agents, and producers felt that the system, No. 1 took too long to get new products out for sale, and No. 2, was not as transparent as it could be. And so what ARPA did was create this time-limited process, and it requires the Board of Directors now to do things that RMA used to do before 2000 and which nobody really saw, and now it tends to be a more public process. The expert reviews that Mr. Davidson mentioned are now required. When we approve a new product, we have to send it out and contract with five private sector expert reviewers. That is a much more transparent process. And the information that they have brought into the system, external people outside of RMA doing the research, that new and creative and different information, I think, has been helpful. And so I think some of the transparency and third-party opinions have been useful to the system, and you have to balance that against this compartmentalization and inflexibility that it has imposed on RMA.

Mr. DAVIDSON. I think one thing is clear, though. It hasn't necessarily shortened the time frame for introducing and getting new products completely to market. It is about the same, or maybe even a little bit longer.

Mr. SCOTT. Thank you.

Mr. MORAN. Mr. Scott, thank you.

I believe that the last member of the committee has asked questions. I think there is interest in additional questions, but I don't intend to have a second round. But I would expect, Mr. Davidson

and Dr. Collins, that you will receive written questions from the subcommittee members as we would expect an answer within the normal time frame. I thank both of you for your testimony and appreciate you being here this morning.

Mr. DAVIDSON. Thank you.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. MORAN. The Chair calls the second panel to the table: Mr. Greg Burger, president of Farmers Crop Insurance Alliance, Eau Claire, WI, on behalf of the American Association of Crop Insurers; Mr. Mike Sieben, president, Farm Bureau Mutual Insurance Company, and vice chairman, Crop Insurance Research Bureau, Manhattan, KS, on behalf of the Crop Insurance Research Bureau; Mr. Norman A. Nielsen, president, Associated Insurance Counselors, Inc., Preston, IA, on behalf of the Independent Insurance Agents & Brokers of America; and Mr. Billy Rose, chief executive officer, Crop1 Insurance, Des Moines, Iowa.

Mr. Burger, you may proceed when you are ready.

STATEMENT OF GREG BURGER, PRESIDENT, FARMERS CROP INSURANCE ALLIANCE, EAU CLAIRE, WI, ON BEHALF OF THE AMERICAN ASSOCIATION OF CROP INSURERS

Mr. BURGER. Good morning, Mr. Chairman and members of the subcommittee. My name is Greg Burger. I am president of Farmers Crop Insurance Alliance located in Eau Claire, WI. I appear here today in my capacity as vice-chairman of the American Association of Crop Insurers. On behalf of the Board of Directors and members of AACI, I want to thank you for scheduling this hearing.

Let me first say the Federal Crop Insurance Program is a huge success. While congressional support for the Federal Crop Insurance Program historically has been strong and consistent, the committee is especially to be commended for the development and adoption of the Agricultural Risk Protection Act of 2000. ARPA provisions were designed to encourage farmers to buy higher coverage in decisions regarding risk protection and management. For the first time, total premium was reported to have reached \$4 billion in premium. Net acres insured in 2005 reported to have exceeded 221 million.

We want the committee, however, to be aware of any policies that would detract from such success. With that regard, the RMA's efforts to force a Premium Reduction Program upon the crop insurance industry are inherently discriminatory against small family farmers. RMA is used in the outdated section of the crop insurance law enacted in 1994 when reimbursement for delivery crop insurance was almost 32 percent to impose premium discounting on that industry that is now reimbursed at a rate of only 21 percent. All of the established companies that deliver the program are strongly opposed to the PRP.

To demonstrate why a premium discounting program will force crop insurance agencies to discriminate against small farmers or go out of business, we have attached, as appendix B, from the Sherry Wegner Agency in Glasscock, TX, it shows that the agent's average cost of servicing a Federal crop insurance policy is approximately \$300. The Wegner Agency has provided a printout of the actual policies sold by the agency with the names of policyholders deleted

for privacy reasons. If you will focus on the next to the last column of the page, you will find the actual commission paid to the agency. This data demonstrates that many of the commissions paid from the policyholders are substantially below \$300. In fact, 58 percent of them are less than \$300. The Wegner Agency remains profitable because it has some larger policies.

Clearly, if a premium discounter is allowed to "cherry pick" the larger and more profitable policy of the Wegner Agency, the agency will no longer be able to serve small farmers. It would just plain go out of business.

But we also believe that companies will migrate from the high-loss ratio States to the low-loss ratio States where they can make a profit from underwriting results. And we believe RMA does not have the staff to do financial audits, audits of small farm discrimination, and do audits on service standards.

For these reasons, we believe the PRP program should be discontinued permanently.

The new concern for 2005 is soybean rust. To address this concern, companies are conducting a variety of educational opportunities, including agent training sessions, customer meetings, and customer direct mail communications to help assure farmers have a full and complete understanding of approved and required practices concerning soybean rust management.

I want to assure the committee that insurance companies are doing everything we know to do to eliminate confusion on the part of farmers and agents regarding the interface of soybean rust and the crop insurance policy.

Fraud identification and control continues to improve. No one in the crop insurance industry condones fraud. We do have a concern, however, in that RMA has instituted so many rules and regulations because of the fraudulent acts of a few that the honest producer is overwhelmed with paper and procedures and are vulnerable to very severe penalties from honest mistakes. There are so many rules that RMA has difficulty in timely distribution of clarification of all of their policies and procedures.

A final thought, over the 25 years of this program, we have had to overcome serious obstacles and setbacks to achieve the current program. However, during this time, RMA management generally worked with the industry to improve the program. Now we in the private sector feel that we are always trying to react to new RMA program changes that would seriously undermine the program.

In the policy and regulatory complexities required to have a Crop Insurance Program that offers good value and risk management and farm income protection for all farmers, the private sector delivery industry should be able to depend on a public and private partnership with RMA whose dominant characteristics are cooperation and understanding. Toward that objective, be assured the industry looks forward to working with this committee in helping the Crop Insurance Program to always satisfy its public policy goals.

Mr. Chairman, this completes my statement, and I will be happy to answer questions at the appropriate time.

[The prepared statement of Mr. Burger appears at the conclusion of the hearing; the appendix to the statement is on file with the committee.]

Mr. MORAN. Mr. Burger, thank you very much.

Mr. Sieben, welcome from Kansas to the subcommittee. We are glad to have you here, and we are interested in hearing your testimony.

STATEMENT OF MIKE SIEBEN, PRESIDENT, FARM BUREAU MUTUAL INSURANCE COMPANY, AND VICE CHAIRMAN, CROP INSURANCE RESEARCH BUREAU, MANHATTAN, KS, ON BEHALF OF THE CROP INSURANCE RESEARCH BUREAU

Mr. SIEBEN. I appreciate the opportunity to be here. Thank you.

My name is Mike Sieben. I do live in Manhattan, KS. I currently serve as vice chairman of the Crop Insurance Research Bureau, otherwise known as CIRB, and I am full-time employed as the crop insurance vice president for Farm Bureau Mutual Insurance Company.

Farm Bureau Mutual is involved in the delivery of multiple peril crop insurance and has been since 1982. We provide coverage to farmers in eight States: Iowa, Minnesota, Kansas, Nebraska, South Dakota, Utah, Arizona, and New Mexico.

Today, I represent the Crop Insurance Research Bureau, which is a national trade association, whose members are involved in the delivery of MPCI to the farmers of this Nation. CIRB's 23-member and associate member organizations represent a broad cross-section of the crop insurance industry, including companies who hold a standard reinsurance agreement, multi-State writers, single State writers, property-only writers, and our partners in the reinsurance business, brokers and reinsurers together.

Since the complete text of my testimony will be included in the official record, I will touch on the highlights of my comments regarding the Premium Reduction Plan and the Asian soybean rust.

The concept of a premium discount to farmers who utilize crop insurance is, on the face, appealing. As a matter of fact, we had a good producer discount back in the 1990's that many people utilized. There is a potential for unintended consequences under the proposed rule that could jeopardize the delivery mechanism of the federally reinsured Crop Insurance Program of MPCI. For that reason, CIRB opposes implementation of the proposed rule and recommends suspension of any further approvals for the Premium Reduction Plan until a comprehensive study of the impact of the plan can be made. We are concerned that PRP will create a competitive imbalance, promote industry insolvency and will lead to discrimination against smaller producers, smaller agents, and States that have historically poor underwriting performances. These factors will threaten the basic premise of the federally reinsured program universal access.

CIRB believes that RMA does not have adequate resources or expertise to evaluate the proposed PRP submissions in a timely and appropriate fashion. In that regard, CIRB feels that an independent CPA or auditing firm should be retained to provide comprehensive and objective evaluation of the PRP plans that are submitted to assure that such plans meet or exceed the requirements outlined in the regulations.

The recommendations of that firm should then be submitted to the FCIC Board of Directors for an ultimate decision. Additionally,

all approved plans should likewise be evaluated by the same CPA or accounting firm at the end of each crop year to assure compliance with the established criteria for offering PRP.

CIRB notes that the current proposed rule does not provide for penalties or sanctions for a submitter that does not achieve the projected savings. The rules must provide for penalties or sanctions for misrepresentation of a provider's ability to provide PRP according to the established criteria.

CIRB also believes that the proposed rule is not clear as it relates to ceding commissions and contingency commissions. To clarify, the rules should explicitly not allow reinsurance ceding commissions to offset expenses because this discriminates against those companies who do not rely heavily on outside reinsurance. Contingency commissions should be included as expenses.

CIRB does not recommend further implementation of the PRP plan until a comprehensive study has been completed showing the likely, long-term PRP effects on the program as a whole. This study should evaluate the potential impact of PRP to universal accessibility, the implications to the delivery system, and most importantly, the impact on the farmer.

In regard to the Asian soybean rust, first of all, let me say that RMA has been quite clear that soybean rust is a covered peril so long as the farmer utilizes good farming practices in the management of his crop.

From an insurance perspective, we are as proactive as possible and providing producers with as much information as we can on how their insurance coverage will work. Rust will be treated in much the same manner as any other covered peril where control measures are used. Farmers will be expected to take appropriate measures to mitigate losses from the disease.

One frustration that we do have that we feel as companies is that the manager's memos are released later than promised and often are clarified or updated mid-policy. This places a tremendous strain on companies because if a manager's memo is late, we have missed training meetings with agents and adjusters and any updates to our computer systems or mailings is an additional expense to our companies.

We have some guidance from RMA in place on Asian soybean rust, but if past history is any indication, we will see other changes and updates to policies throughout the crop season.

Just recently, Mr. Chairman, we have received a bulletin with regard to a change we made in regard to over-reporting and under-reporting acreage. We have programmed this. We have trained people on this, and we have recently received a bulletin stating that that is incorrect; we are going to have to go back in, reprogram, and reeducate our producers and our farmers. Many of the bulletins we receive are quite late, and we feel like they could do a better job in getting this information out to us in a more timely manner.

Mr. Chairman, that concludes my remarks.

[The prepared statement of Mr. Sieben appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Sieben.

Mr. Nielsen.

STATEMENT OF NORMAN A. NIELSEN, PRESIDENT, ASSOCIATED INSURANCE COUNSELORS, INC., PRESTON, IA, ON BEHALF OF THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

Mr. NIELSEN. Good afternoon.

Thank you, Chairman Moran and members of the subcommittee, for the opportunity to present the views and recommendations of the Independent Insurance Agents & Brokers of America on the Premium Reduction Plan and soybean rust.

My name is Norm Nielsen. I am a crop insurance agent in eastern Iowa. I am also the chairman of the IABA's Crop Insurance Task Force. IABA, known as, "The Big I", is the Nation's oldest and largest national trade association of independent insurance agents, representing a network of more than 300,000 members nationwide.

"The Big I" is a staunch opponent of PRPs. This does not mean we are against competition. To the contrary, we believe competition is healthy and provides an important checks-and-balance for our industry. However, PRPs actually undermine the competitive playing field by putting cost of service over quality of service. We also question the motives behind the Risk Management Agency's decision to allow one company to continue to offer PRPs after the Federal Crop Insurance Corporation Board passed a resolution suspending PRPs until the rule-making process can be completed. This lack of foresight created what can easily be classified as a Government-sponsored monopoly for the 2005 reinsurance year. If this is RMA's idea of promoting competition in the industry, then the future looks very bleak for anyone involved in the delivery of risk management programs.

"The Big I" believes that PRPs have no role in the industry that relies on the expertise of the agent network, that the proliferation of this program will result in serious, unintentional consequences for our Nation's farmers. Moreover, we believe that PRPs promote discrimination against limited-resource farmers as well as farmers in high-risk areas, which flies in the face of Congress's intent when they created the program to provide all eligible farmers in the United States with crop insurance.

In order to understand why PRPs are bad for the program, we need to understand the role of the agent in the delivery system.

Unlike property and casualty, the crop insurance agent is responsible for a more hands-on approach. For a standard policy, I must gather production, compute APH, determine optional units, review plans of insurance, and in my area of the State, there are 247 choices to present to the farmer, do risk management, enter information into the computer systems. All of this done by March 15. I charge RMA to show me a delivery system that reduces the role of the agent without reducing the quality of service to our American farmers.

PRPs call for the providers to demonstrate that a true efficiency be achieved, not merely the cost has been cut below the expense reimbursement. Mr. Chairman, agents are not expendable efficiencies. As a result, PRPs undermine the quality of the crop insurance delivery system, contrary to the standards established by Congress.

“The Big I” has also voiced concerns regarding discrimination against small, limited-resource and minority producers. Now it is easy for RMA to admonish all forms of discrimination, however, condemning discrimination and actually having the means to control it are completely different issues. RMA has no enforcement mechanism to prevent such abuses. It is unrealistic to expect RMA’s current compliance office to effectively monitor and relegate discriminatory practices. There are also forms of covert discrimination available for companies to employ. For example, agents used to deliver PRP will undoubtedly be driven by the size of the agency’s book of business. If your book of business is full of lucrative accounts, they will want you. If it is full of small and high-risk accounts, they pass over you.

There is a term for this, and we call it “cherry picking”. Therefore, if only the best and most profitable customers are skimmed off the top, the result undermines the intent of the law which governs the programs. Companies have realized significant reduction in Federal reimbursement over the last 11 years without implementing PRPs. Therefore, the empirical evidence exists that the program burden on the American taxpayer has continued to decline while the quality of service to our Nation’s agricultural producers has remained static.

Regarding soybean rust, good farming practices are the hallmark of any successful agricultural enterprise. If the farmer fails to follow them, he should be subjected to reduce indemnity. Since soybean rust is a fairly new problem for the farmers, most have taken advantage of the resources made available from Secretary Johanns.

However, as an agent, how can I promote good farming practice if RMA redefines the policy after the sales closing date? This is a recipe for failure. Everyone involved in the delivery of crop insurance makes good farming practices a priority and want to continue to do so.

In conclusion, Mr. Chairman, PRP is a wrong policy at the wrong time. Under PRPs, our Nation’s farmers are in the losing end, and the quality of risk management will suffer. The access to available plans will be greatly reduced, and the knowledge and the understanding of the system will be limited to those farmers who are able to educate themselves on the complexity of crop insurance. In addition to servicing their farm needs, the insurance industry is too complex to speak in generalities.

I implore Congress to repeal section 508(e)(3) before it dismantles the most successful private/public partnership our country has had in over 25 years.

Thank you very much.

[The prepared statement of Mr. Nielsen appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Nielsen, thank you very much.

Mr. Rose.

**STATEMENT OF BILLY ROSE, CHIEF EXECUTIVE OFFICER,
CROP1 INSURANCE, DES MOINES, IA**

Mr. ROSE. Good afternoon. My name is Billy Rose. I am the president of Crop1 Insurance. Joining me in the room are Kelly Deitering, senior vice president of Citibank Texas and Windmark

Insurance, a Crop1 representative based in Lubbock, TX, and Ray Grabanski, president of Progressive Ag Systems, Fargo, ND, who represents Crop1 in the Dakotas, Minnesota, and Wisconsin. They are representing the more than 400 agents who write for Crop1 today.

As you are aware, Occidental Fire and Casualty Insurance of North Carolina, with its MGA Crop1, is the first crop insurance provider approved by the USDA to provide PRP. We hope other companies will join us in offering PRP as we understand the RMA has received several applications.

Some have claimed that if PRP expands, agents will stop selling insurance and service levels will decline. Based on our experience, that will not occur. For example, this last year, we trained 30 new agents in one agency alone. I believe PRP has already been a success. Further, we are confident that we will continue to develop new agents and new technology to enhance the service levels.

For example, Bruce Larsen, a farmer and now Crop1 agent, wrote us: "I farmed southwest Minnesota with my farmer. I also hold three off-the-farm jobs to help support our farm. I am very pleased to become part of the Crop1 family. I liked the company so much that I decided to start selling it. Our farm saved over \$3,000. I wish I could do that with every aspect of farming. Maybe I could give up a job or two and just survive on the income of the farm. I am also impressed with Crop1's Internet access. I have been told by customers that it is nice for those who work off the farm to be able to have access to information when it is convenient for them. It also makes my job as an agent faster and easier, allowing me to spend less time on each account by still giving each one excellent care."

Mr. Chairman, in addition to new agents like Bruce, the PRP appeals to many established agencies. There are many others like our agent in Kansas who has been an independent crop insurance agent since 1987. He states: "Crop1 insurance is providing my clients a better value for their crop insurance. Many of my producers have moved their level of coverage from the 65 percent level to the 70 or 75 percent level of coverage with very total outlay in premium. The new Internet technology offered by Crop1 helps me in providing accurate and up-to-date information on crop reporting."

Mr. Chairman, this is what our company is all about, providing technology that enables our agents to provide high-quality, efficient service. Before starting Crop1, I managed a general agency. I was a crop insurance agent. I remember how many times farmers would come in, and they would want to buy higher levels of coverage, but they could not afford it. Then I thought, "What if? What if we could develop a program that would make higher levels of coverage more affordable? What if we could develop software that would make it easier for our agents to identify and advise the farmers in the best effective way?" At Crop1, we have met both of those goals.

Our PDP helps farmers buy higher coverage levels. Our software has made the agent's life easier. Already, PDP has saved policyholders millions and millions of dollars with no added risk to the insurers, to the FCIC, or the American taxpayer.

And yet the question before us today: "Is it a good idea to allow farmers a premium discount?" Crop1 and Occidental say yes. Our

agents, some who are representing us today, say yes, and our customers agree. We believe in competition. Competition spawns innovation. It increases the quality, improves service, and lowers price. Mr. Chairman, that is good for American farmers.

There will always be those who resist innovation and change. Today, some argue that a farmer's purchasing decision will be too complicated if we introduce price. We all know farmers negotiate price every day. Some who resist change say that price competition is not necessary. I guess they feel farmers don't need the money. I can assure you that that is not what farmers believe.

Mr. Chairman, in conclusion, David Frangan, a Kansas farmer, recently told us: "I am well satisfied with Crop1. There must be some special interest group that is not aware that with higher prices for fertilizer and fuel et cetera, farmers have to look for an opportunity to save cost, and Crop1 Insurance Premium Discount Program is working for the farmer."

Mr. Chairman, anyone who doesn't believe a discount is needed should talk with the American farmer first.

Thank you for your time and attention.

[The prepared statement of Mr. Rose appears at the conclusion of the hearing; the appendix to the statement is on file with the committee.]

Mr. MORAN. Thank you, Mr. Rose.

Those of you who were around, in the industry in 1996, what was the purpose, what was the theory behind 508(e)(3)? Did anybody participate in those discussions?

Mr. BURGER. If I remember correctly, it was to increase participation and increase the levels of coverage for the farmer.

Mr. MORAN. And the evidence, Mr. Rose, of increasing the participation, the level of coverage, based upon Crop1's experience, is what?

Mr. ROSE. Yes. We have found that many farmers are taking the savings that we provide and buying up in their level of coverage, especially with the soybean rust looming and scaring us right now. We have been advising our farmers, "Take the savings and buy additional coverage." It is great that we have great penetration of 80 percent of the marketplace buying these policies, but are they buying the right policies? Our software shows them all of the what-if situations that they could encounter on yield and price, and then they can take the savings, and it is like, "I am glad that I came here for the savings, but I am really appreciating the advice you are giving me," through the Crop1 agents.

Mr. MORAN. Do you have any numbers to quantify that experience?

Mr. ROSE. Yes. Over 70 percent of our policies, totaling over 16,000 policies sold this last spring, buy revenue insurance and buy a high level of insurance. They are still calculating the 2005 numbers.

Mr. MORAN. What is it that a customer of Crop1 receives in regard to service different from any other agent? I assume that the farmer gives up something for a reduced premium. What is that?

Mr. ROSE. The farmer is not giving up anything. In fact, when I was running a crop insurance agency, we have a very seasonal business. And I used to have to run down the gravel roads and get

the signatures and ask about how the family was. And I often asked myself, as an agent, was I really doing a good job of advising that farmer. Well, at Crop1, we saw this need to develop software so that we could help our agents advise their customers on what is the best insurance for them. Take price out of the equation. Every farmer's balance sheet is different. His marketing style is different. And we just developed this in order to advise properly. So we are providing a savings, and through our agents, providing better service. And additionally, farmers that have Internet access, they can view their policy and any of their information at the convenience of going through the Internet portal.

Mr. MORAN. So where does Crop1 get their efficiencies that they are required by regulation to have in order to qualify to provide this product?

Mr. ROSE. Very good question, Mr. Chairman.

We have to operate within the A&O. That is approximately 22 percent. Our efficiencies are derived from our software and our IT platform that allows our agents to do a better job of servicing at a lot less time. It used to take me 10 hours to sit down with a farmer and run all of the what-if scenarios. I can sit down with our software in 10 minutes, and I can tell you exactly how much money you are going to make under any situation with your crop insurance policy and your P&L and your cost. And at the end of the day, you show them their options and how it impacts the bottom line.

Mr. MORAN. Has your business plan at Crop1 changed? As I became aware of this story, it was insurance provided, it seemed to me, over the Internet. And I assume now that you are now talking about providing this business by using agents in the field?

Mr. ROSE. There has been a lot of misrepresentations about Crop1. OK. We have been pigeonholed as Internet only. We have been told we don't have claims. We have been told this. I can assure you what we did is we took the technology of Internet today and we host the agent's site, and we host the ability for the farmer to go to that agent's site, log in on a secure access, and view their policy information at any time. But we sell this through our channel of agents. We have over 400 agents. Some are with me today that represent North Dakota and Texas. I have heard earlier today that we are not going to go into high-loss ratio States. We have been in North Dakota since day one. We entered into Texas, which historically is a high-loss ratio State, and because the beauty of this plan is we operate within the A&O, we don't rely on speculative underwriting gains, this allows us to go into under-served areas or high-loss ratio areas and actually help those farmers out.

Mr. MORAN. Mr. Rose, may I assume that any agent in Kansas or any other State is licensed by the State law, and the State law, in our case, by the Kansas Insurance Commissioner, and that your agents all would have taken the necessary RMA education?

Mr. ROSE. Yes, continued education and comply with State law.

Mr. MORAN. So your agents are licensed insurance agents in the State of Kansas, for example?

Mr. ROSE. One-hundred percent.

Mr. MORAN. Let me ask the rest of the industry. Is there a range of costs in providing crop insurance for farmers? One of the things that concerns me about this topic is the so-called phrase "cherry

picking". And those of us who live and represent rural America have to have lots of concern that we are left behind, that there is more money to be made in larger quantities in bulk buying or selling, that it is cheaper for providing services where there is lots of volume. How does that work with the regular agent, a non-Crop1 agent, in Kansas or elsewhere? Mr. Sieben, maybe you can answer that for me as a Kansas Farm Bureau person.

Mr. SIEBEN. Well, Mr. Chairman, we have expenses that are out there all of the time. Basically, you start with commission or underwriting expenses in house, our adjusting expenses on the various crops that we have. We have legal expenses. We have auditing expenses. All of these types of expenses go into our overall expense factor for the Kansas Farm Bureau, or any of the farm bureaus. When we have looked at this and we analyzed it two or three times to see if we could qualify, under the current provisions, and Farm Bureau Mutual was not qualified to be able to offer the Premium Reduction Plan based on the current guidelines that are out there. These expenses are going to be there every year. We have looked at a few, offered it on various plans, such as GRP or GRIP. There are no adjusting expenses on that. We do not have those programs. They are not widely used in the Midwest currently. So when we look at a revenue insurance policy or crop revenue coverage policies, we are looking at all of these expenses that we have on a yearly basis no matter what. As I mentioned to you, our IT costs and the changes that have been made recently are additional expenses we have that we have to incur every year. We have to keep updated with these changes that are made. So therefore, Mr. Chairman, these expenses are going to be there for us every year.

Mr. MORAN. Mr. Rose, does your company offer the full array of all insurance products, crop insurance products to whatever a farmer would be eligible for? Do you provide them or do you pick and choose what policies would be available?

Mr. ROSE. No, we put the farmer first. Our software analyzes all options and actually opens the eyes up for the farmer as to a couple choices that he maybe hasn't thought about. Mr. Sieben just commented about GRIP. Actually, we are seeing a tremendous increase in GRIP when the farmer understands the product over in the Indiana and Illinois area.

Mr. MORAN. Let me turn to Mr. Pomeroy. My time has expired, but now he has the opportunity. I will probably allow the same thing to happen for him.

Mr. POMEROY. I thank the chairman and appreciate your line of inquiry. It kind of covers my own thinking.

Twenty years ago, I was the new insurance commissioner in North Dakota, and much of this morning's discussion reminds me of things I have heard before, not just in, certainly, the crop insurance field, but all lines of coverage. You will have stalwart, conservative leaders in the insurance industry extol competition, do everything that they can to keep it from applying to them. On the other hand, I have heard "new and improved" so many times where the sizzle didn't have much steak to it. And so I am trying to sort this one out. I think the most important thing said about moving from a regulated environment to a competitive environment was said by the preceding panel. It is consequential. There is a lot in-

volved. In the end, it raises issues. I seriously wonder whether these issues have been thoroughly considered by RMA. And they didn't give me confidence that they had necessarily put in place what they need to have in place before making a change like this one.

These are very capable advocates, however, of the different viewpoints to this question. I commend the panel, each and every one of you. I think your testimony has been extremely interesting. I would like to let Mr. Nielsen give his response to some of the things Mr. Rose has said. And Mr. Rose, you are going to have a chance to respond to what he has said. I would like to hear the interplay of your ideas as we sort this one out.

Mr. NIELSEN. Thank you. And I do want to respond.

For 13 years, I was an agricultural lender in my area of the State and went through the debt crunch and the non-survival of many farmers. And I can tell you if this product, as it has been sold in the last, oh, say 8 years, was available or would have been available then, we would not have had the failures. So the program, at its heart, is a good program. But what Mr. Rose is missing, to some degree, in my opinion, is the risk management part of this. Risk management is sitting down face-to-face, understanding where that farmer farms. You can't see that on the Internet. You can't see that he has got flood ground. You can't see that he has got risk ground. You can't see that he is trying to get into organic farming, where he is doing it, how he is doing it. The soybean issue right now, we have three full-time staff out of 12 doing nothing but talk to our farmers about the soybean issue. "What are you going to do? We have not another RMA. Oh, now we have got to do it different. What do we have to do?" We are on the phone, we are in their face, we are the coffee shop. Risk management is so important to do this right, and that would be my general comment on this.

Mr. POMEROY. Mr. Nielsen, Mr. Rose seems to be saying they have been able to advance risk management through software and their IT platforming. He quotes their producer as saying now he is able to "spend less time on each account while giving each one excellent care". It is your view, apparently, that if you spend less time on each account, you are giving each one less risk management.

Mr. NIELSEN. Well, let me clarify one thing that probably needs to be said. I represent two companies. As an independent agent, I always continue to always have choices. And with that, the technology of the two vendors I have will do everything that Mr. Rose's company says he can do. With that said, that even gives access to the farmer directly to his policy. That gives mapping services that even our local farm service office doesn't even have. We are ahead of the Government in this issue. Again, we are in an area of Iowa that doesn't have square fields. We have got strip cropping. We have got all kinds of things going on. And this is readily available to our farmers.

Mr. POMEROY. Mr. Rose, I think that innovation and new ideas, competition, in an abstract sense, is very helpful in an industry, and I salute you for the energy and innovations you have advanced. But when you say that your software and IT platform have taken

10 hours of work you used to have to do as an agent and reduced it to 10 minutes, I mean, frankly, it seems to me a bit of overselling.

Mr. ROSE. I welcome you, sir, to sit down in closed chambers, and we can walk you through our program. Remember, I was an agent. I ran an agency. I know exactly what the agents were faced with. Then there was a light bulb that went off one day. "Can't we make this better?" And you know what? The analysis that we do, because I don't think that Mr. Nielsen has ever looked at our program. I welcome you to come look at our program. We pull 10 years worth of history. Do you pull 10 years worth of history and do what-ifs on GRIP on every one of your policyholders? Do you go down and mind the P&L, profit and loss, for his operation, his cost, and then throw in a marketing plan and then do a what-if on what if prices go up 20 cents and yields go down by 20 percent? We have provided all of this to our customers, and the customers are now looking at it. Because they don't have to stay with us. "I will come for the savings. If you don't give me a good job on my service, I am gone." We had a 90 percent retention rate last year. Those customers would have left if it was just a sham, Internet only. And when you say that we don't have a touchy-feely, we can be as high-tech Internet as we want to be or as high-touch. These agents right here are my touch factor, all 400-plus going strong. We will be hopefully 500 by the time I get back. We are firmly committed. Occidental is a strong financial company. Crop1 is committee. RMA, I commend them for the oversight. We have been audited by our reinsurers, our policy-issuing company, our outside auditors, by RMA, weekly reports. I think my job some days is only providing reports. I am killing too many trees instead of helping farmers. That is my vision here. OK. The farming is tough. Where are the farmers in this room?

Mr. POMEROY. Mr. Chairman, with your lead, before I yield back the balance of my time, on that, Mr. Rose, you indicate that farmers negotiate price. They negotiate price for lots of things. Do you think they ought to be able to negotiate price for their insurance, too?

Mr. ROSE. One hundred percent. They should be able to shop what is best for them and be advised as to what is best for them and make a choice. It is the free market.

Mr. POMEROY. Do you believe that the anti-rebate provision that RMA has is something that should not be in place?

Mr. ROSE. No, rebates should not be allowed.

Mr. POMEROY. Well, what is the difference between a rebate and what you are doing?

Mr. ROSE. We have demonstrated our efficiencies. The farmer knows exactly what savings they are going to get compared to the other players. This isn't under the money table. This isn't promises for "if you give me your PNC insurance I will give you a savings on your crop insurance". Everything is on the table. They know what they get. We are very transparent, and we stand behind. And we have proven our savings, not only to the Federal Government, but also to the farmer.

Mr. POMEROY. Do you think this premium discount is broadly approved? How do you respond to the notion that while if you pay

less to the private partner in the delivery of the product in the end it is highly likely that you will have some consequence relative to service and risk management provided?

Mr. ROSE. Well, let us look at the industry at 100,000 feet. Most current approved insurance providers are exceeding dramatically probably their A&O reimbursement. We operate within the A&O reimbursement. North Dakota on hail insurance, a lot of providers have pulled out. Crop1 has been in North Dakota and expanding since day one. Because we operate within the A&O, we are fiscally responsible to the Federal Government. We are not going to go out of business. We can weather 10 years of bad losses. We are not speculating on a gain. So that is good that there is stability within the company that is committed to this program.

Could you repeat the second part of your question?

Mr. POMEROY. If, on a competitive basis going forward, you have more and more filings, you indicated you welcome that relative to this kind of discount, it would seem to me that it would be likely the competitive environment relative to the compensation of agents is going to lead to greater risk selectivity as well as reduced risk management services in servicing the client.

Mr. ROSE. One of the things that we require is that all of our appointed agents sign a PDP special waiver that says that they are going to make the premium discount available to all of their customers so that there is no discrimination about big, small, and medium-sized farmers and who is going to get offered it.

Mr. POMEROY. Not to interrupt, but that is a fine policy statement, but that does nothing about selective marketing. Surely you offer it to everyone you talk to, but you only talk to big players.

Mr. ROSE. Yes. Very good question. What we do, unlike the other companies, is we promote our agents. We have an agent locator Web site. We send out direct mail to hundreds of thousands of farmers announcing who is the locally-appointed agent. We do newspaper and industry ads of maps, like if there would be 20 counties in North Dakota and we show the agents and where they are located and how to contact them directly. And what we do is we try to put a face on Crop1 through our agents. So that farmer who hears about the savings, and a funny thing last night, going up to my room, a gentleman from Minnesota, and he was here at the rural electric co-op, and I said hi, and we started talking. And he said he is a farmer. I said, "Oh, how is the spring planting going?" He said, "Great." I said, "Have you ever heard of a company called Crop1?" He says, "Yes, the Internet only, right?" And I said, "Would you buy the same policy and save up to 7 to 8 percent if you could get the same service and even maybe more advice?" He said, "Sure. I thought you guys were Internet only."

And what I am saying is that there is a misperception that we are fighting. Maybe that was intentionally misled out there. But what we are doing is we are advertising tooth and nail. I personally have been on a road show talking about our software, talking about our company, getting editorials out there in all newspapers in our 15 States trying to make farmers aware that they have a choice. They can save, and they can get great advice, too.

Mr. POMEROY. Mr. Chairman, I thank you for your indulgence. Any other panel members care to respond?

Mr. MORAN. Mr. Burger?

Mr. BURGER. I would like to respond.

Mr. POMEROY. And then I am done. I yield back.

Mr. BURGER. I would like to respond to the idea of the IT technology. Just about all companies have quoting programs and marketing plans that have been around forever. That is not an innovation at saving money. The savings come strictly from reduced agency commissions. That is where the savings are. It is not a new way to do it. Most companies have facilities where farmers can look up on the Internet what their policies are and so on and so forth.

The thing that keeps coming across from our agents is Crop1 only contacts the large producer, and that is a big difference. And you can build a lot of efficiencies if your average premium is higher. We take a look before the insurance commissioner of the State of Iowa, this is back in October 2003, one of the findings that is quoted here is "Crop1's direct target market is 62,000 large customers in the central Corn Belt." I guarantee you all of us companies, if we would select large producers in the Central Corn Belt, we could provide all kinds of efficiencies and make lots of money. That is the difference. And we hear that time and time again from our agents and our field staff out in the field as to who they are marketing to.

Mr. MORAN. Mr. Burger, thank you. It really is kind of the follow-up to from what I have heard is what you just said. And it is incredible for me to believe that you can have better service, lower premiums, and all as a consequence of information technology. I assume in today's world that in the business world, anybody who has information technology, if there is a new breakthrough, new efficiencies, you are all going to find ways to make your computer system work like everybody else's. So a part of the story that is troublesome to me is that the efficiencies come from information technology. I just think that would be available for anybody in the business. And I will ask Mr. Rose to respond, maybe the answer is to my question to Mr. Rose about where are the efficiencies, is Mr. Burger right? Is it in the lower commissions paid to your agents?

Mr. ROSE. I am sure we don't pay the highest or the lowest commission out there. But over 50 percent of our A&O reimbursement that we are paid goes out in the form of commissions. And our agents feel that that is fair compensation, because we are reducing their time and effort and enhancing their advice to the farmer.

Mr. MORAN. And the other part of this story that bothers me is what I assume Mr. Pomeroy and I hear all of the time. You hear one set of facts and another set of facts, and you are in the same room. You are all having the same conversation. But this story about "cherry picking", which still troubles me, in that I think we need to make certain that the Crop Insurance Program works for all farmers and the end result of this program, in my mind, can not be that large farmers are going to have insurance and small farmers are not. Is there some way that we can get to the qualitative analysis that answers this question as to who is buying a Crop1 policy, who it is marketed to? Who is paying the premiums? Is that information something that we can garner by asking someone the right question?

Mr. NIELSEN. Mr. Chairman, we have been asking RMA over the last 3 years for that direct information. And the thing they say is, "Under confidentiality, we can not share that." I think we need to all step back a little bit from the issue, have independent people analyze this that is this really the truth. Is there "cherry picking"? Are there under-served farmers? Are there minority farmers that aren't being served? We both have our opinions. Mr. Rose, I admire him for his opinion, but I differ with him. And with that, we need an unbiased. I don't think presently RMA is willing to give us the real dope on this, excuse my language.

Mr. MORAN. I always think that sometimes we have the panels turned around. It would be maybe better to have heard from all of you and then have the Risk Management Agency testify. But to me, these two kinds of issues, where do the efficiencies really come from and what is the marketing plan? Who benefits from a Premium Discount Plan, Crop1's or anybody else's? As I understand it, six other companies have applied to be able to offer a Premium Discount Plan. And it would be interesting to me to know from those companies what their marketing plan is. Is it going to model something that suggests that only the largest farmers are going to be served? So others are thinking this out. Mr. Burger?

Mr. BURGER. We were one of those six that applied for the PRP plan for this last year, and I have been looking at our financials. I have been part of the part of the Crop Insurance Program from the beginning, so I study them closely. I know what it takes to process and service this business. It is a complex business. We don't maintain fat in our expenses. And so at the end of the day, when you take a look at all of it, the biggest expense by far is the agent's commission, and to operate under the A&O, the only way to do it is to reduce the agents' commissions. That is it. Period.

Mr. SIEBEN. Mr. Chairman, if I could comment.

Mr. MORAN. Yes, sir.

Mr. SIEBEN. In reading the comments that were presented to RMA in regard to the PRP, there were several comments from producers and also companies that made reference that they had applied for the PRP but only on certain plans and only in certain States. So the comment that was made by Mr. Davidson that 80 percent of the companies or the liability was applied for for a PRP is basically incorrect. They were applied for certain plans in certain States, not all States and not all plans and not all coverages. So that needs to be clarified a little bit, also, sir.

Mr. MORAN. So in addition to my question about who are you marketing to, when you, as one of those six companies, are looking at whether or not to offer PRP, my question was about who are they planning on marketing the product to, what you are also telling me is what product are they planning on marketing?

Mr. SIEBEN. Correct. Yes, sir. And in what States, also, because—

Mr. MORAN. And what States?

Mr. SIEBEN. Because one of the comments that was also made referenced the fact that if they had to offer it in all States and all plans and all coverages, that they would remove themselves from certain States, and that is where we come with the comments we

made earlier about not being in all States at all times. So this is the comment that came through the comment period.

Mr. MORAN. Mr. Rose, my guess is that your answer to my question about the commissions paid to agents is that you don't pay the most and you don't pay the least. I don't know what range that is in or what the answer to that question might be, but my guess is that your agents are more part-time agents than full-time agents? And this is another source of income for them but they have other income? Is that an accurate description of people who are agents for Crop1?

Mr. ROSE. We have part-time, and we have full-time. I would say a majority of our people are dedicated to selling the crop insurance on a full-time basis. Right behind me are two individuals that are full-time. That is what they do for a living, advise and sell crop insurance.

Mr. MORAN. Let me ask the panel. What do we need to do about the ever-changing rust and your manual in the time frame? Let me get to that topic. What do we need to ask RMA to do that they are not doing in regard to timeliness?

Mr. NIELSEN. May I answer first, because we, as agents, are on the front lines? First of all, we have got to get RMA to tell us that we now can get involved in the claim. Just recently, we received a bulletin and a \$10,000 fine if we are involved in the claim process. That is ridiculous.

Mr. MORAN. This is the result of the SRA negotiations?

Mr. NIELSEN. Yes.

Mr. MORAN. Yes, sir.

Mr. NIELSEN. But it is ludicrous to say that we can not tell the farmer, "You have got to get these records." Legally, I feel I am breaking the rules right now by advising him how to take care of good farming practice issues.

Mr. MORAN. These manuals that you are talking about come to you as an agent or an insurance company that describe what best farming practices, good farming practices are, to which I assume the reason you would need to know that is to communicate to your customer?

Mr. NIELSEN. Yes.

Mr. MORAN. But then what you are telling me is on the other hand, under the SRA, it is inappropriate for you to assist your customer in filing a claim?

Mr. NIELSEN. We can do the paper filing, but we can not advise. Period.

Mr. MORAN. Now does that seem to be as inconsistent to you as it does to me?

Mr. NIELSEN. Totally inconsistent with the industry.

Mr. MORAN. OK.

Mr. NIELSEN. To take this a step further then is the issue that we are not as we probably 30 years ago did in the industry. We were schoolteachers. We sold crop insurance in the spring. In the summer, we did crop hail adjustments. That doesn't exist in this industry. We have got professional adjusters handling the issue. The agent is not involved in adjusting. But we need to be the advocate for the farmer, the producer of saying, "Hey, you need to have these records ready for this guy when he shows up to do your ad-

justment. We have got to be involved, because they are farmers. They are not understanding day-in and day-out what they have to have, so they need to come and talk to us. Well, now agents are sitting with a \$10,000 fine in their face. What would you do?

Mr. MORAN. Let me ask, I think, my final question. Any questions that you would like for us to raise on this topic of a Premium Discount Plan to all of you, a question that we have not asked you. You are down to Mr. Pomeroy and me with regard to these questions, so if we have missed something, what would you like for us to ask you? And then secondly, are there questions that you would like for us to direct at RMA on any of these topics? You heard the testimony today from Dr. Collins and the Administrator. Is there something that we missed that we should be raising with them as we submit written questions to them?

Mr. SIEBEN. Mr. Chairman, if I could speak. In regard to the RMA and the timeliness of information, back to your previous question on the soybean rust, soybean rust, a lady with the Soybean Association spoke about this 2 to 3 years ago. And in fact, it was moving into the United States. So it is not something that was brand new that just hit. RMA could have been a lot more timely in their information to us prior to us training our agents or even our adjuster schools in providing information to us at that point in time. We feel that RMA presently delays everything to a point where it puts us in kind of a bind as to being able to tell them the correct information on what to do, how to farm their program, how to farm their farm, I should say.

So I think the question we would have, two-fold and I will leave it to the rest of the panel.

First of all, all we are asking for right now on the PRP is that they have an outside accounting firm or auditing firm look at the financials, and if it is so, it is so. We will live with that. But we would like to have an outside source to look at that.

In regard to the timeliness of information, we would appreciate all of that information being out way in advance.

And with regard to the conflict of interest that has been spoken about with agents, three different times we have been told by RMA and Ross Davidson that he would have a memo out to us within the next week, and that started in February. And to this day, we still do not have a memorandum with examples on how the conflict of interest statement would pertain to agents, adjusters, and such. We are still waiting on that memorandum to come out.

Mr. BURGER. If I could concur mostly with what Mike has said here. Confusion of policies and we are chasing the fraudulent individual so much that there are so many rules and regulations that it starts making it so burdensome for the honest producer and agent. That is a real concern for us as we proceed further.

The other thing on the Premium Reduction Plan, we agree with Mike that it would be nice to get an outside view of the savings, because we can't find anywhere where it says that we have to have this by July 1 or any date. We all need to be satisfied that the efficiencies are there from other ways. And if the report shows that, then we will go forward. And we look forward to competing with any company on a rate basis or commission-based or whatever it takes or service. We pride ourselves in the service aspect first. But

why not wait? Let us make sure that we are on the right course with this Premium Reduction Plan because it has the potential to disrupt the marketing.

Mr. NIELSEN. I would like to kind of say, "Yes, I agree with the two gentlemen here," but since PRP is such a volatile thing right now, there were 600 comments to a process that normally doesn't have anything. Maybe there should be a second comment period after the facts are on the table from an outside entity, so we really do see what is really going on. And as Mike has said here, if the facts are the facts, we will live with it. There is not a problem with that.

I will also say I am very vested in my association. My people are very much in this game. We are making income, but we are making income in every small community in every agricultural end of the United States here. So yes, we do make money out of this product, but we also pay taxes, and we throw everything back.

So I think there needs to be some analysis here of what we add to the value to the communities, et cetera, to make some sense out of this when you do the analysis.

Mr. MORAN. Mr. Nielsen, when you say if the facts are the facts, you will move on, that comment, what facts lead you to believe one thing or another? What facts would you see that would cause you to think that PRP is OK or PRP is a terrible development?

Mr. NIELSEN. First of all, the fact that you are following the rules, OK, that the financial soundness is there, that you truly, truly are not "cherry picking", that you are not misserving the organic farmer or all of the loose ends here that we are all obligated to serve. Competition is good, and I don't have a problem with it, and I don't think our members do, because we compete ourselves every day.

Mr. MORAN. Mr. Pomeroy.

Mr. POMEROY. Mr. Chairman, there has been mention made about a third-party review. I am wondering what form. Are you talking about RMA hiring an audit firm to look at the filing for or are you talking about Chairman Grassley's call for a GAO audit? Do you have specific suggestions?

Mr. SIEBEN. I guess my comment is just we are looking at a third party to look at this that would not be associated with RMA that might have a tilted view of what they are looking at. We would like somebody that looks at numbers to be able to justify the expenses as such. There are many expenses all of us have. Sometimes we forget about them, but an outside accounting firm would have that information available. And that is what we are looking at. It is just an outside, third-party verification. Whoever it might be, so be it.

Mr. NIELSEN. I would make the comment just the GAO is fine with us.

Mr. MORAN. Anything else, Mr. Pomeroy?

Gentlemen, thank you for your testimony, for your time. What I thought was an hour and a half hearing is now about 3 hours later. I was pleased with the committee's attendance and participation and the quality of the questions, and I think this suggests that there is a real interest in crop insurance issues and perhaps particularly the ones that we have addressed here with this panel.

And it suggests that there is more work for us to do in regard to this topic.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses to witnesses to any question posed by a member of the panel. The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 1:00 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Committee, thank you for the invitation to participate in today's hearing. I appreciate the opportunity to discuss developments of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC) since last year's oversight hearing. This morning, I will briefly review some of the Board's major activities, including approval of new products and pilot programs, changes in existing products and key issues addressed by the Board.

Mr. Chairman, the Federal Crop Insurance Program is growing and improving and serving the public well. In just the past 5 years, the number of acres insured through the program grew by 14.7 million, as more farmers saw the value of the crop insurance safety net and as more products were developed and approved for more crops in more locations. The program now offers 22 insurance plans on over 350 agricultural commodities in all 50 States plus Puerto Rico. The FCIC Board has focused this past year in evaluating the product portfolio, considering new products offered to the program and expanding existing products into additional States.

The Board has benefited greatly from the experience and broad knowledge of its members. They have been, and are, persons of accomplishment in the worlds of agriculture, insurance, agribusiness and other areas. This past year saw a change in the Board as three members left the Board due to expiring terms or other reasons, and three new members joined the Board. We thank those leaving for their excellent public service: Susan Fitzsimmons, Roger Swartz, and Christopher Watt. New members include: William (Bill) Classen, who fulfills the requirement for a member with experience in the crop insurance business; Luis Monterde, a specialty crop producer from Mississippi; and Mike Pickens, experienced in regulation of insurance. Other members include: John Askew, a producer from Iowa; Frank Jones, a producer from Texas; Tim Kelleher, a producer from California; Ross Davison, administrator of the Risk Management Agency (RMA); JB Penn, Under Secretary for Farm and Foreign Agricultural Services, and myself.

The Board is charged with general management of FCIC and takes that responsibility very seriously. We could not succeed without very close interaction with the employees of RMA and the Office of the General Counsel, who work tirelessly to provide us the information and analysis we need for our deliberations, and we thank them for these continuing efforts.

ACTIONS ON NEW PRODUCTS, IMPROVED PRODUCTS

This past year, the Board has taken significant actions affecting the Federal crop insurance program. We have received proposals for many new products, directed expert reviews for the appropriate offerings, approved new products, approved modified pilot programs with improvements, and terminated some products that were not serving the needs of producers. I will review a few of these actions which have had a positive impact on the crop insurance program as a whole.

Two actions taken by the Board this year involved resolving issues of concern related to outstanding livestock products. The Livestock Risk Protection (LRP) pilot plan of insurance for fed and feeder cattle and the Livestock Gross Margin (LGM) pilot policy for hogs were approved by the Board under section 508(h) of the Federal Crop Insurance Act (Act) which authorized the submission of private policies. In early 2004, the Board withdrew these livestock products, pending review and modification, following cessation of sales of LRP cattle as a result of the discovery of a BSE infected cow in Washington State in December 2003 and due to other issues related to LGM. RMA successfully worked with the owners of both of these products to identify modifications requested by the Board, making it possible for the Board to re-open sales of the improved plans of insurance beginning September 30, 2004. The modifications made to the livestock insurance plans included procedures for the suspension of sales of the product in cases of catastrophic events or highly volatile

futures market prices and other procedures to minimize adverse selection by insureds.

The Board remains concerned over the marketability and the appropriateness of these products as a long-term offering of FCIC. Consequently, the Board has required a thorough evaluation of the performance of the livestock pilots after one year of operation is completed on September 30, 2005.

During the past year, the Board also approved the significant expansion of a relatively new product, Adjusted Gross Income-Lite (AGR-Lite). AGR-Lite was developed by the Pennsylvania Department of Agriculture and first offered in 2003 in Pennsylvania. In the two years following its introduction, AGR-Lite was expanded to 16 States (including Pennsylvania), and for 2006 will be available in a total of 18 States. There appear to be additional States currently working with Pennsylvania to request that AGR-Lite be expanded into their States.

AGR-Lite covers the adjusted gross revenue from the whole farm based on five years of Federal tax return data and expected farm income for the current year. It is a simplified version of the Adjusted Gross Revenue (AGR) pilot plan of insurance and uses the AGR Handbook and rating methodology. AGR-Lite can potentially fill an important void in FCIC's product line by appealing to small-to-medium size producers of livestock and specialty crops. AGR-Lite, as a new plan of insurance, has had limited participation and continues to undergo revisions for improvement. In 2004, there were 96 policies sold, and for 2005, there are 148 policies earning premium with an average of three agricultural commodities covered per policy. Those sales compare to an average of 444 traditional MPCI policies for one agricultural commodity.

AGR-Lite has a \$250,000 liability limit and that is most likely one reason for the somewhat limited participation, including participation by producers with livestock. The liability limitation exists as an eligibility requirement because of the relationship between the cyclical nature of livestock prices and the AGR/AGR-Lite rating method. RMA currently has a contractor working to determine the most effective and actuarially sound methods to use in rating various types of livestock under the AGR plan of insurance. Other reasons the participation level is low may be related to the learning curve of a financial product as compared to a production agriculture type of insurance product, as well as the cost of delivery. On April 28, 2005, the Board sent for expert review a series of potential modifications of AGR-Lite designed to improve the product and increase participation.

Answers to some of the questions surrounding the limited participation may also be forthcoming soon, as RMA entered into a contract for a formal evaluation of the AGR pilot program last summer. This in-depth evaluation will review all aspects of the AGR pilot program including a review of program, listening sessions with both producers and approved insurance providers, underwriting, actuarial analysis, tax issues, and reinsurance. The evaluation is scheduled to be completed in early December 2005 after which the Board will place AGR under consideration for continuation, continuation with modifications, or termination.

At our most recent Board meeting, held last week on April 28, the Pennsylvania Department of Agriculture presented proposed revisions for the AGR-Lite program. The Board acted to send the proposed revisions for expert review. We continue to believe that the growing pains of this program can be overcome with time and diligence, and that it will prove to be a very useful product for small-to-medium size, diversified farmers and ranchers.

The Board continues to look for ways to improve the risk management capacity of farmers and ranchers. In May 2004, the Board, responding to the needs and requests of producers, authorized the implementation of a Silage Sorghum Pilot plan of insurance for 2 counties in Colorado and 37 counties in Kansas. The maximum coverage level for this pilot program is limited to 75 percent and the price election is limited to 80 percent of the price election for corn silage. Sorghum varieties grown for harvest as silage are eligible for coverage under the new program beginning with the 2005 crop year, with the pilot continuing through the 2008 crop year. Non-silage varieties of grain sorghum are not covered under this pilot program.

In addition, growers of grain sorghum felt that they had fewer risk management options than did corn and soybean growers. In October 2004, the Board approved the Group Risk Income Protection (GRIP) plan of insurance for grain sorghum, beginning with the 2005 crop year, for all States and counties currently approved for the Group Risk Plan (GRP) giving grain sorghum growers an additional insurance choice. GRIP was initially submitted and approved under section 508(h) but it is now owned and maintained by RMA. Since GRIP for grain sorghum will only be offered in areas where GRP is offered, sufficient actuarial information was available for this implementation.

DEALING WITH EXISTING PILOT PROGRAMS

In addition to approving new crop insurance programs, improving the existing portfolio of products remains a high priority for the Board. As part of a broad portfolio review conducted last year, the Board contracted for the development of an analytical tool to help measure the performance of existing products and identify changes that would improve their usefulness. That analysis tool, which encompasses over 70 questions, is now being integrated into the business processes of RMA. It will be used by RMA to assess existing policies and can be used by new product developers and contracted evaluators.

The Board has responsibility for eliminating those programs that have not proven to be in the interests of producers or cannot be demonstrated to be actuarially sound. In 2004, the pilot program for crambe was terminated by the Board and the Pilot Coverage Enhancement Option, or CEO, was terminated following the 2005 crop year in most States.

Pilot programs for mustard, mint, wild rice, and cabbage were evaluated by the Board and the Board determined them to be successful and voted to convert them to permanent programs. This vote culminates years of extensive scrutiny that the programs went through to achieve final approval.

The value of pilot programs was demonstrated through two significant actions this past year. The Board terminated the existing Pilot Group Risk Plan Rangeland Program and replaced it with a new Pilot Group Risk Plan Rangeland Program, which has a more accurate index for the 2005 and succeeding crop years. Similarly, the Board dealt with the Sweet Potato Pilot program this year. This pilot program, introduced in 1998 for Alabama, Louisiana, and South Carolina, had high loss ratios and program integrity vulnerabilities. The Board asked RMA to perform a comprehensive review of the program and upon its review of the findings, decided to continue the existing Sweet Potato Pilot Program for the 2004 crop year, subject to changes to ameliorate the worst problems, while a new Sweet Potato Pilot Program was developed for the 2005 year. After contracted experts reviewed the new proposed program, the Board cancelled the previous flawed program and approved the new one in October 2004.

IMPROVING BOARD PROCESSES

The Board regularly reviews its processes through its Governance Committee and through the Board as a whole. This past year, the Board determined that it was necessary to clarify its expectations, and the standards it uses, with respect to marketability of new products and reimbursement of research and development and maintenance costs in order to improve decision making regarding the approval of private products submitted under section 508(h) and 7 C.F.R. part 400, subpart V. The Board must determine that the interests of producers are protected before it can approve a submission by RMA or a private entity and, thus, the marketability of a submission should be considered when determining whether the interests of producers are protected. Therefore, the Board has requested applicants to submit additional information to substantiate the marketability of their submission. Such information includes focus group results, market research studies, qualitative market estimates, effects upon the delivery system or ancillary participants, correspondence from producers expressing the need for such product or plan, responses from a reasonable representative cross-section of producers to be affected by the product or plan, and correspondence from approved insurance providers and reinsurers expressing willingness to sell and support such a plan. If the producer does not see it as attractive and the approved insurance provider is not in favor, the wisdom of approving a new submission would be in question.

The Board also now asks that a submitter fully disclose and document requests for reimbursement of contracted expenses and professional fees associated with a submission. We find that certain information is sometimes ambiguous or fails to fully articulate business relationships, and that such information is needed in order to determine the reasonableness of these expenses. To remedy this situation, the Board now asks applicants to include the relationship, if any, between the applicant and any contractor or professional, such as parent company, subsidiary, etc. Further, the Board examines contracted expenses and professional fees broken out by line item to include individual names, rate of pay, hours allocated to the submission, benefit rate and overhead for the professionals and all persons who make up the contracted party who had substantive involvement in the development of the product for which reimbursement was sought.

In evaluating whether the interests of producers are protected, the Board also believes that due to the finite nature of resources available to FCIC, the level of expected future maintenance costs must also be considered, including costs associated

with changes to automated systems, and the impact to the delivery system to assure the ability to adequately and appropriately inform, service and timely meet all obligations for eligible producers. Therefore, the Board now asks applicants to provide a comprehensive estimate of future maintenance costs for each of the next four years for the submission and the basis for which such maintenance costs will be incurred, including, but not limited to, any anticipated expansion, the generation of rates, the determination of prices, automated systems impact, delivery costs, contracted costs and any other costs that the applicant anticipates will be requested for reimbursement.

PRP—A MAJOR ISSUE

A major issue that the Board addressed during the past year and an interest expressed for this hearing is section 508(e)(3) of the Act, which provides for the possibility of a premium reduction for producers. The issue of a Premium Reduction Plan (PRP) has led to considerable debate, divergent opinions, and much deliberation by the Board. Issues regarding the legality and equity of such a plan have arisen. To address all the issues, in November 2004, the Board directed the FCIC to proceed with the notice and comment rulemaking process in this matter as expeditiously as possible. Let me briefly provide the context in which the issue arose for the Board.

Section 508(e)(3) requires the FCIC to allow approved insurance providers to offer a premium reduction plan if they meet the requirements of the law. In 2002, one company, Crop 1, requested Board approval to offer a PRP. By Board resolution in December 2002, the Board established certain standards that such a PRP should meet. The Board also directed RMA to develop more detailed procedures by which that particular company could operate a PRP and by which others could also apply to operate such plans. Since then, several other approved insurance providers, representing over 80 percent of the crop insurance business have requested approval to offer a PRP of their own particular design, including substantial variations from the single plan approved in accordance with Board-established procedures. However, those plans have presented significant implementation and regulatory issues for RMA that were not contemplated by the existing procedures. The Board decided that all stakeholders, including the producers who stand to benefit from such plans, should have an opportunity to present their views. Accordingly, RMA is proceeding with notice and comment rulemaking to establish a comprehensive framework by which such plans will be evaluated, approved, regulated and operated. The comment period for the proposed rule ended on April 25, 2005. RMA will consider all comments received so that the final rule will allow them to administer section 508(e)(3) of the Act equitably and to the benefit of all producers, large and small, while maintaining the integrity of the Federal crop insurance program.

During this rulemaking process, the Board has provided its counsel to RMA on a range of PRP-related issues. The Board created an ad hoc committee that reviewed the proposed rule and will continue to serve as a sounding board for RMA during the development of the final rule. After the rule is issued, the Board will review with the manager of FCIC all submission for approval of a PRP.

The Board is fulfilling and will continue to fulfill, its statutory responsibilities, including the provision of oversight, guidance and direction to FCIC and RMA. At each meeting, the Board reviews different aspects for RMA's activities in the discharge of the Board's general management responsibilities. Each Board member is pleased to have the opportunity to serve and we all work diligently to ensure the effectiveness and efficiency of the Nation's crop insurance program.

STATEMENT BY ROSS J. DAVIDSON, JR.

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to report on the progress and challenges of the Federal crop insurance program. Under the direction of the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), the Risk Management Agency (RMA) continues to promote an agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing and to guard against waste, fraud and abuse within the program.

This year we mark a major milestone for the crop insurance program. Twenty-five years ago, the Federal Crop Insurance Act of 1980 became law, creating the unique partnership between private insurance companies and the Federal Government within the crop insurance program.

The program has experienced extraordinary growth in the last quarter century. Through the private sector delivery system in crop year 2004, RMA provided approximately \$46.7 billion of protection to farmers on over 358 commodities covering over 80 percent of planted acreage in the United States. This coverage was offered through 22 plans of insurance and approximately one and a quarter million policies that insured about 221 million acres. Attached to my testimony are several charts that provide further background and highlight the growth of the Federal crop insurance program.

In 2004, crop insurance provided approximately \$3.1 billion in indemnity payments to farmers and ranchers, including approximately \$218 million for the four hurricanes in the Southeast and approximately \$337 million for upper Midwest freezes.

The roles of crop insurance and the Risk Management Agency have evolved over the years, but our mission remains the same—to promote, support and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agriculture producers. RMA continues to improve and update the terms and conditions of existing crop insurance policies to improve coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policyholder and approved insurance providers.

The new Standard Reinsurance Agreement (SRA) is now in place, effective for the 2005 crop year. Key changes included a lowering of the percentage rate of Administrative & Operating (A&O) expense reimbursement, which will be implemented over the 2005 and 2006 reinsurance years. In addition, RMA enhanced the reporting and monitoring of SRA holders with respect to financial solvency. To complement that enhancement, RMA has strengthened formal ties with state insurance regulators and the National Association of Insurance Commissioners (NAIC).

We now have 16 approved insurance providers selling and servicing crop insurance, compared to 14 when the 2005 SRA was signed. Most of these companies have requested authorization to increase the amount of premium they write and the number of states they intend to serve.

Since the SRA was signed, three new insurance companies have been approved. They are Austin Mutual and its Managing General Agent (MGA), Crop USA; the Westfield Insurance Company with its MGA, John Deere Risk Protection, Inc.; and Stonington Insurance Company with its MGA, Agro National LLC.

The 2004 reinsurance year was exceptionally profitable for the companies and their commercial reinsurers, with an estimated \$700 million in underwriting gain and a return on retained premium of approximately 22 percent. In 2003, companies had an underwriting gain of \$380 million, with a return on retained premium of about 15 percent. In 2002, companies had an underwriting loss of \$46 million, with a -2 percent return on retained premium. A&O reimbursement has also risen from \$626 million in 2002 to \$734 million in 2003, with an estimated \$889 million in 2004.

Now I would like to provide an update to the Subcommittee on the following key issues.

RMA PROGRAM ISSUES

- Premium Reduction Plans
- Soybean Rust
- Multi-year Disasters/Declining Yields
- Misreporting and Penalties
- Program Integrity
- Conflict of Interest
- Pasture, Rangeland, Forage and Hay Initiatives

PREMIUM REDUCTION PLANS (PRP)

In 1994, Congress added section 508(e)(3) of the Federal Crop Insurance Act, which allows approved insurance providers to offer reduced premiums to farmers corresponding to demonstrated efficiencies in delivering crop insurance below the A&O expense reimbursement. The Act requires that the efficiency be subject to the rules, limitations and procedures established by the FCIC.

Under the Act, this premium reduction is not considered a rebate. Under a rebate, the insured pays the full premium and a portion of that premium is later returned to the insured. Under a premium reduction plan, the insured receives a discount on his/her premium. In essence, the approved insurance provider is paying an additional premium subsidy on behalf of the producer from savings achieved through efficiencies in the approved insurance provider's operation.

The Board approved standards for allowing all insurers to be approved to offer PRP in early 2003 in response to the application made by Converium Insurance Companies (Converium) and its Managing General Agency, Crop1. Converium was approved to offer a PRP under those procedures, which were available to all companies. RMA then closely monitored Converium and Crop 1's implementation of their approved PRP, including investigating complaints received from other agents and competing approved insurance providers.

In the few instances that it was found an adjustment was needed, RMA required Converium and Crop1 to adjust their approach in the marketplace to ensure compliance with the rules, limitations and procedures of the crop insurance program in general and those specific PRP procedures established by the Board. This includes the requirement that Converium and Crop1 make insurance available to all farmers in the states in which the company sells and services crop insurance. Farmers who have purchased insurance using the PRP plan expressed appreciation for the lower premiums and consistently reported good service. In addition, Crop1 has a very good record of compliance with the administrative requirements of reporting policy information, remitting payments to FCIC and resolving discrepancies.

A number of additional approved insurance providers have now requested RMA's approval to offer their own PRP. Implementation issues have been raised by these new submissions that were not contemplated when the procedures were drafted. In light of this and other issues that have been raised regarding the effect of PRP on the crop insurance delivery system, the Board adopted a resolution on November 19, 2004 to publish a proposed and final rule to address this issue.

The proposed rule for PRP was published in the Federal Register on February 24, 2005, with a 60-day comment period. The comment period ended on April 25, 2005. RMA has received approximately 600 separate mailings pertaining to the PRP proposed rule. After RMA evaluates and considers all comments received, it will then decide whether any changes need to be made to the proposed rule. The last step in the process will be to publish a final rule, reflecting any changes that may have been made to the proposed rule in response to comments.

Generally, the comments received have expressed concerns about the potential for PRP to reduce agents' commissions and the effect this would have on the agent force and service to producers, particularly small, minority and limited resource producers. Several comments have expressed concerns that PRP will result in larger, lower-risk producers being targeted for the discount, while smaller producers would not be offered the discount. However, RMA has also received comments supporting PRP, stating that Crop1's Premium Discount Plan has allowed producers to purchase higher coverage levels. Briefings on PRP for both the Senate and House Agriculture Committee staffs were also held recently to provide a summary of the comments and answer questions about the process.

The process continues to move along in a timely manner on this issue.

SOYBEAN RUST

Asian soybean rust (*Phakopsora pachyrhizi*) is a fungal disease that can quickly defoliate plants and reduce pod set, pod fill, seed quality and yield.

To ensure that farmers know their rights and responsibilities under the soybean policy, RMA has augmented the information that approved insurance providers are required to provide to farmers through their agents. RMA's communications encourage insured producers concerned about the impact of Asian soybean rust to use good farming practices by seeking and following recommendations of agricultural experts to control soybean rust. Further, RMA recommends that insured producers document the advice received and actions taken to combat this disease and contact their agents on matters related to their insurance policies. Approved insurance providers have been asked to distribute this information to all soybean policyholders.

Additionally, RMA is continually gathering up-to-date information and data regarding the spread and appropriate management of soybean rust. RMA participates in the National Soybean Rust Working Group's bimonthly teleconference and U.S. Department of Agriculture Soybean Rust Working Group. In addition, RMA monitors and participates as necessary in discussions among State and Federal agriculture agencies regarding preventative and control measures. RMA holds a bi-weekly conference call with all RMA Regional Office Directors to discuss their direct contact with local State and Federal agriculture officials to obtain any updated information or developments in the spread and control of the disease.

MULTI-YEAR DISASTERS/DECLINING YIELDS

For most FCIC insurance plans, an individual insured's yield guarantee—approved Actual Production History (APH) yield—is principally based on a simple av-

erage of 4 to 10 years of actual yields. Producers and others, including you Mr. Chairman, have suggested that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee can adversely affect the viability of future crop insurance coverage and discourage continued participation in the program.

Multi-year crop losses can create a problem that ought to have a solution and yet, the problem is complex. Last spring, RMA solicited proposals for Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields. RMA goals were to seek proposals for new or modified approaches to establishing approved APH yields that are 1) less subject to decreases during successive years of low yields as compared to current procedures; 2) equitable across policyholders with differing average yields; 3) broadly applicable to all crops and regions; 4) affordable to policyholders; 5) feasible and cost-effective for RMA and approved insurance providers; and 5) actuarially sound.

Contract proposals have been received and evaluated and RMA recently entered negotiations for two contracts to begin the necessary research and development of alternative methods. The details of those proposals are not publicly releasable at this time, but we will release them as soon as contract negotiations are complete. Any proposal to effectively address this issue will require additional funding and possibly new statutory authority. We appreciate the subcommittee's continued interest and willingness to assist in addressing this structural challenge to the program.

MISREPORTING AND PENALTIES

A recently publicized dispute between some Nebraska producers and the Federal crop insurance program highlights the potential problems associated with certifications and correcting multiple years of discrepancies in reported information. The RMA Central Regional Compliance Office is assisting the Office of Inspector General (OIG) in a criminal/civil investigation of a crop insurance agency. The OIG initiated the investigation as a result of RMA reviews that identified the appearance of waste, fraud and abuse in the crop insurance policies serviced by the agency. Currently, the U.S. Attorney's office and OIG are in charge of the matter, with RMA and the impacted insurance providers assisting to bring this matter to a close as soon as possible.

The agency serviced a large book of business of over 400 crop insurance policies in Nebraska and South Dakota. Based on complaints received from the Farm Service Agency (FSA), RMA began investigating the appearance of fraudulent activities of the agency for the 2000, 2001 and 2002 crop years.

RMA found significant misrepresentations of the production and acreages covering several years in crop policies serviced by the agency. The misrepresentations included several cases where producers certified having planted crops they never grew or had not grown in several years and producers certified having an insurable interest in crops in which they had no such interest. There were also instances of inflation or deletion of production histories involving multiple crop units and years, which had the effect of inflating the producers' guarantees. As a result, the producers had inflated APH databases, incorrect insurance premiums and received overpaid indemnities, many occurring over a period of several years.

In November 2002, the approved insurance provider that the agency was affiliated with, American Growers Insurance Company (Growers), was placed under supervision by the State of Nebraska. The policies written by the agency for Growers were then assumed by various companies beginning with the 2003 crop year. By the time OIG released RMA to begin corrective action relative to the incorrect policy certifications, the former agency policies had been placed with 14 different approved insurance providers.

In August of 2004, RMA sent letters to the approved insurance providers notifying them that the RMA reviews had found significant errors in former agency policies and that they needed to have the producers recertify their APH records and make corrections to the 2003 and 2004 data as appropriate. The intent was to provide information to the insurance companies to begin correcting policies, even though the OIG investigation was ongoing.

Some producers who believe the insurance provider's corrections were unfair have filed suit against USDA and RMA. This current legal action is the result of program insurance providers correcting yields that producers could not support with their records. RMA has received enough feedback to recognize that the instructions given in August may need to be revisited to ensure consistent treatment of these producers. Accordingly, RMA has placed a hold on the approved insurance providers implementing those previous instructions so that RMA can clarify the instructions to ensure producers are not adversely impacted because the procedures may have been

misunderstood. These producers will be eligible for 2005 crop insurance. However, their coverage may be affected by their ability to prove their yields once the revised guidelines are issued. This in turn may result in corrected premium and indemnities from prior years and may require repayment of amounts to which they were not entitled. Part of the revised procedures will be to provide the specific due process procedures for producers in the event they wish to contest the findings.

PROGRAM INTEGRITY

RMA Compliance managers have been concentrating on the mission-critical tasks of evaluating and improving new processes to prevent and deter waste, fraud and abuse in the crop insurance program. Significant effort is dedicated to building and adapting, reporting and tracking feedback systems to complement and integrate the oversight mandates established by the Agricultural Risk Protection Act (ARPA). During 2004, Compliance initiated operation reviews of approved insurance providers to capture a program error rate and to assess approved insurance provider activities under the SRA. The Office of Management and Budget and the USDA Office of Chief Financial Officer are in agreement that a quantifiable program error rate is a key measure in assessing program compliance and integrity.

Additional efforts have been dedicated to integrating data mining projects; exploring avenues to expedite the increase in sanction requests; and continuing to improve the Compliance case management and tracking system. Our Compliance function workload has increased substantially due to the expansion of the Federal crop insurance program and the implementation of ARPA. In order to deal with the increased referral activity, RMA has sought to manage the increase in workload by emphasizing the use of data mining, remote sensing, Geospatial Information technologies and other computer-based resources.

RMA is making significant progress in preempting fraud, waste and abuse through the use of data mining, remote sensing and other advanced technologies. We have preempted millions of dollars' worth of improper payments and RMA continues to identify ways to reduce fraud and provide responsive, useful risk protection to farmers. RMA has used data mining to identify anomalous results in the crop insurance program and, with the assistance of FSA offices, conducts growing season spot checks to ascertain the cause of the results. These spot checks based on data mining have resulted in significant reduction in anomalous claims for certain situations.

RMA saved approximately \$125 million in 2002 by deterring or preventing potentially fraudulent claims through data mining and other related activities. Additional savings of approximately \$93 million were realized for 2003. We are optimistic about the long-term benefits of data mining in our compliance efforts and elsewhere should Congress continue funding beyond 2005.

A recent activity in this area identified policies where a comparison of past claims and APH data indicated that claim production data was not used to establish the APH as required by procedure. The Compliance Offices have completed their assessment of the accuracy and validation of this information. On October 10, 2004, Compliance notified the approved insurance providers that as a result of data mining, RMA had identified potential debt on approximately 14,000 policy units. The notification also contained a request to hold policy records for these units beyond the three-year record retention requirement, if applicable. Although the request did not immediately require the approved insurance providers to review these policies, several approved insurance providers have initiated reviews to determine the extent of the problem and preclude potentially incorrect payments on crop year 2004 claims. Some of these providers have already notified RMA of certain procedures that account for the discrepancies, confirming the fact that data mining results identify anomalous data, but still require review to determine whether an error exists for the policy.

The return on investment using data mining is significant. For example, RMA believes that over \$320 million dollars in estimated savings for the last 4 years is attributable to the data mining spot-check process. While RMA and FSA have preempted tens of millions of dollars of improper payments through these and other measures, RMA is constantly identifying ways to balance competing needs to make our products fraud proof while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we are making good progress in our fight against fraud.

CONFLICT OF INTEREST

RMA has recently issued a Manager's Bulletin and Informational Memorandum containing supplemental guidance to assist approved insurance providers to imple-

ment changes to the SRA regarding conflict of interest reporting and prohibited conduct. RMA reiterated the new requirements and issued supplemental guidance to promote program integrity and ensure adequate internal controls, based on the identification of certain problems in past audits and investigations of fraud, waste and abuse in the program. RMA briefed congressional staff on this issue prior to issuing the Bulletin. We appreciate the feedback and assistance in addressing these compliance issues while maintaining the agent's important role in advising policyholders on matters related to their policies.

PASTURE, RANGELAND, FORAGE AND HAY INITIATIVES

RMA recently awarded four contracts for research and development of new and potentially innovative crop insurance programs for pasture, rangeland, forage and hay. We are pleased to report that positive progress continues on each of these four contracts. RMA expects that at least one proposal may be ready for the Board to consider for independent expert review as early as July 2005. If approved by the Board, pilot testing could begin in 2006.

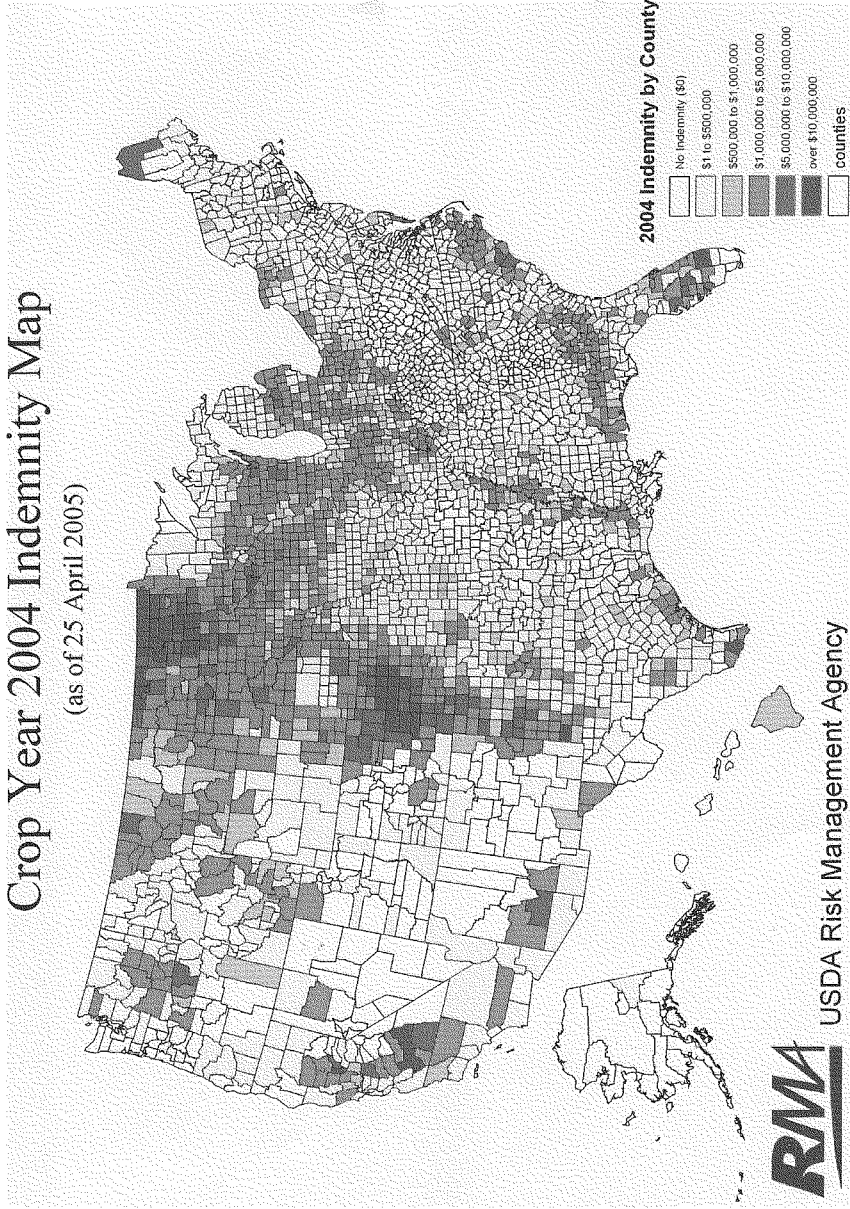
RMA continues to evaluate and provide new products and to promote the adoption of crop insurance as a risk management tool so that the government can further reduce the need for ad-hoc disaster payments to the agriculture community.

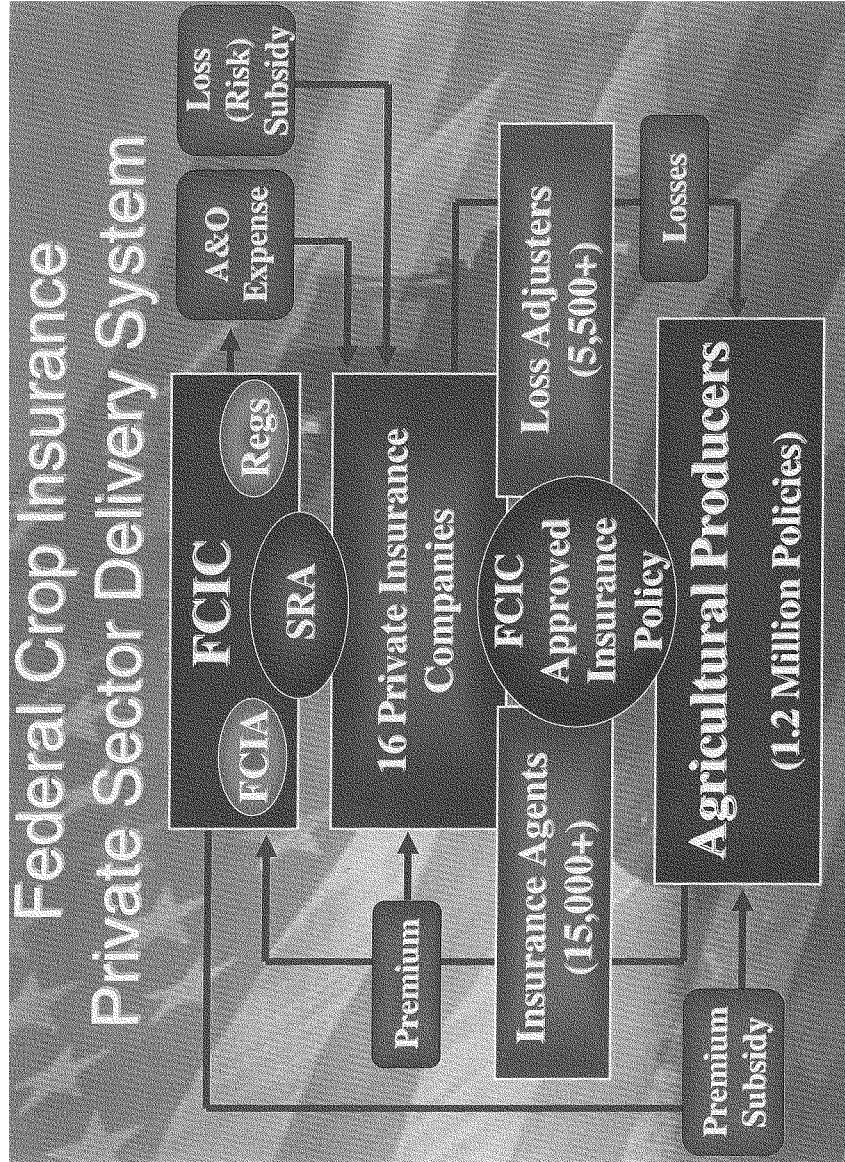
The growth and effectiveness of the crop insurance program is dependent on a reliable delivery system, insurance products that meet the needs of producers, investment in information technology to ensure the delivery system is timely, accurate and dependable, and adequate funding to support compliance and program integrity, product evaluation, maintenance and administration, and new product development.

Again, thank you for the opportunity to participate in this important oversight hearing. I look forward to responding to questions on these issues.

Crop Year 2004 Indemnity Map

(as of 25 April 2005)





Federal Crop Insurance Program Status

**\$46+ Billion
Coverage**

**221 Million
Acres**

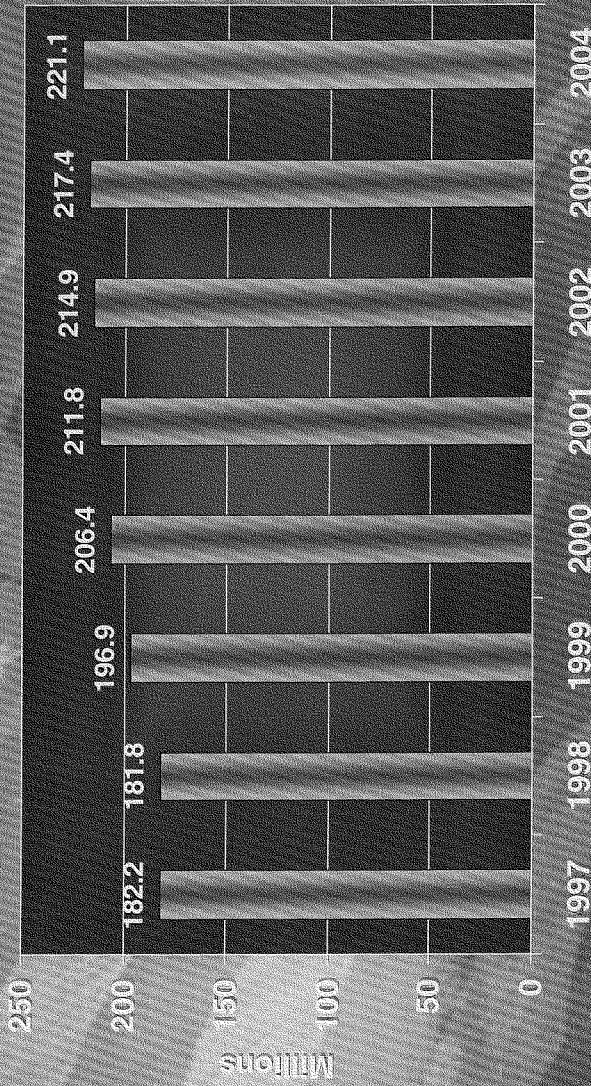
**350+
Commodities**

22 Existing Crop Insurance Plans

Actual Production History (APH)	Group Risk Protection Income Protection (GRIP)
Adjusted Gross Revenue (AGR)	Income Protection (IP)
Adjusted Gross Revenue Lite (AGR-Lite)	Indexed Income Protection (IIP)
Aquaculture Dollar	Livestock Gross Margin (LGM)
Avocado Revenue Coverage	Livestock Risk Protection (LRP)
Crop Revenue Coverage (CRC)	Pecan Revenue
Dollar Amount of Insurance	Revenue Assurance (RA)
Fixed Dollar	Tobacco - Guaranteed Production
Grower Yield Certification (GYC)	Tobacco - Quota
Grower Yield Certification Span (GYC Span)	Tree Based Dollar Amount of Insurance
Group Risk Plan (GRP)	Yield Based Dollar Amount of Insurance

Program Size

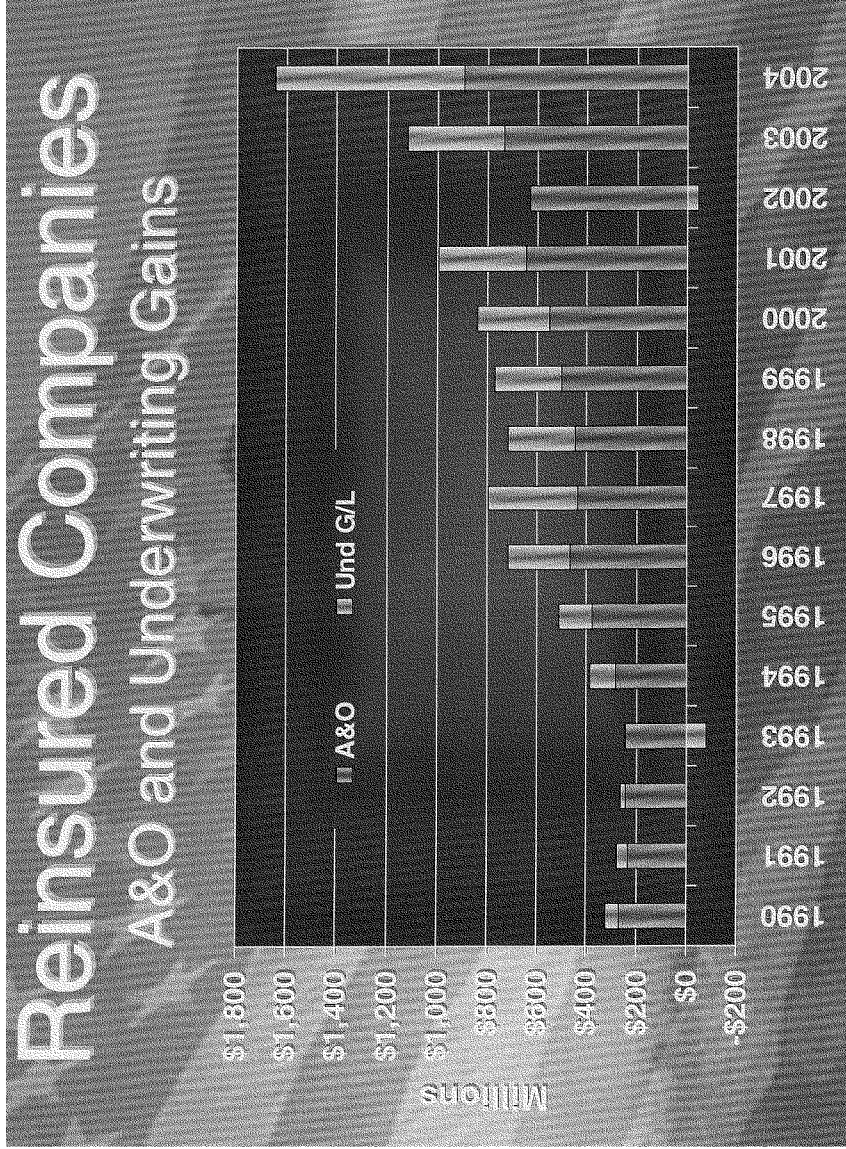
Insured Acreage

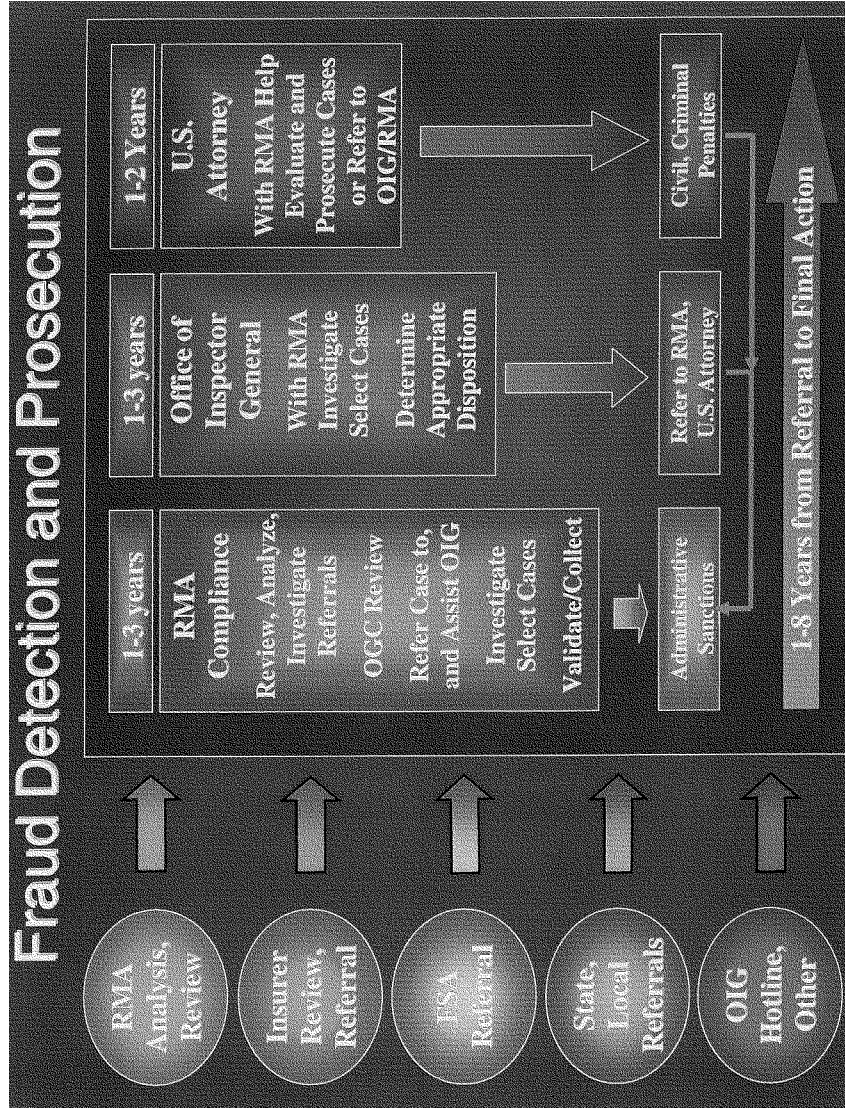


Program Size

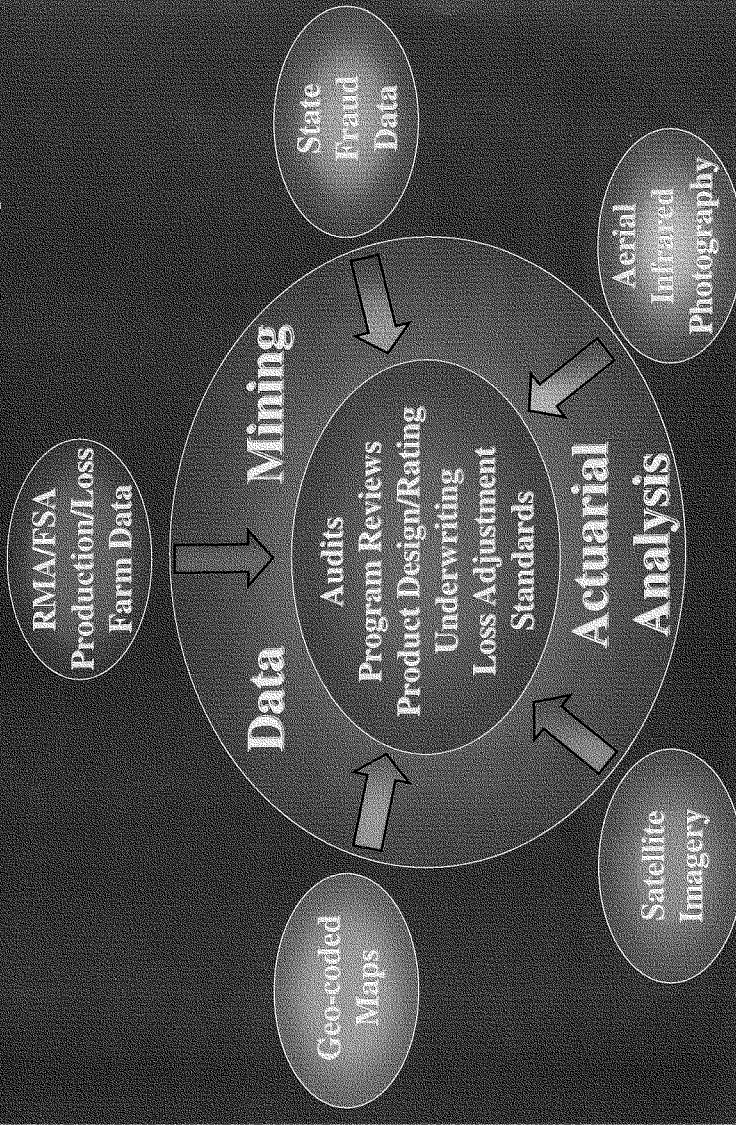
Insurance Coverage by Crop Nationwide

<u>TOP TEN CROPS</u>	<u>(\$ in Billions)</u>
CORN	16
SOYBEANS	10
WHEAT	4
NURSERY	4
COTTON	3
CITRUS TREES	1
POTATOES	.9
TOBACCO	.9
CITRUS	.7
SUGAR BEETS	.6





Fraud Prevention and Preemption



STATEMENT OF NORMAN A. NIELSEN

Good morning. Thank you Chairman Moran and members of the committee for the opportunity to present the views and recommendations of the Independent Insurance Agents & Brokers of America (IIABA) on the Premium Reduction Plan and soybean rust. We appreciate the interest you have shown in these issues, and the initiative you have taken by calling this very important hearing.

My name is Norman (Norm) Nielsen, and I am president of Associated Insurance Counselors, Inc. in Preston, Iowa. I am also the national chairman of IIABA's Crop Insurance Task Force. IIABA is the Nation's oldest and largest national trade association of independent insurance agents, and represents a network of more than 300,000 agents and agency employees nationwide. IIABA members are small businesses that offer customers a choice of policies from a variety of insurance companies. Independent agents offer all lines of insurance—property, casualty, life, health, employee benefit plans and retirement products.

PREMIUM REDUCTION PLANS

IIABA is a staunch opponent of the Premium Reduction Plan (PRP). This is not to say that we are against competition; to the contrary, we believe competition is healthy and provides an important checks-and-balance for our industry. However, PRPs actually undermine the competitive playing field by putting cost of service over quality of service. We also call into question the motives of the Risk Management Agency (RMA) when they approved one company to continue to offer a PRP after the Federal Crop Insurance Corporation (FCIC) Board passed a resolution suspending PRPs until a rulemaking process can be completed. The lack of foresight demonstrated by this decision created what is easily classified as a Government sponsored monopoly for the 2005 reinsurance year. If this is RMA's idea of promoting competition in the industry, then the future looks very bleak for anyone involved in the delivery of this important risk management program, and I shutter to think of the impact it will have on America's agriculture producers.

Mr. Chairman, IIABA believes that PRPs have absolutely no role in an industry that relies so heavily on the expertise of its agent network, and that the proliferation of this program will result in serious unintended consequences for our Nation's farmers. Moreover, we believe that PRPs promote discrimination against limited resource farmers, as well as farmers in areas traditionally classified as high risk, which flies in the face of Congress's intent when they created the Federal Crop Insurance Program to provide all eligible farmers in the United States with crop insurance. In order to understand why PRPs are bad for the Federal Crop Insurance Program, you need to understand the role the agent plays in the delivery system.

Unlike the property-casualty industry, a crop agent's responsibilities require a much more hands-on approach, which invariably increases the threshold for errors and omissions (E&O) exposure. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 hours on a policy during the sales window alone. A transaction begins with the agent explaining production reporting and supporting record requirements to the farmer. He explains different date requirements by crop and by coverage for application, the actual production history (APH), the acreage report, the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent then must review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide him with a copy. This is just the beginning. I haven't even discussed procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. Everything I have just listed goes into writing the policy I haven't factored in what transpires should the farmer experience a loss. I charge RMA to show me a delivery system that reduces the role of the crop insurance agent without reducing the quality of service our Nation's farmers have grown to expect for the last 25 years.

The Federal Crop Insurance Act, as amended, authorizes the FCIC to establish rules, limitations, and procedures for approving applications by insurance providers to reduce crop insurance premiums. To be eligible for the reduction, however, the Act requires that provider demonstrate that a true "efficiency" will be achieved, not merely that a cost has been cut below the expense reimbursement amounts established by the FCIC. Unfortunately, the most realistic "efficiency" a company can realize is a reduction in the role of the agent in the delivery process, thereby confusing cost-cutting with the efficiency required to be demonstrated under the Act. As a re-

sult, PRPs undermine the quality of the crop insurance delivery system, contrary to the standards established by Congress.

In 1980, Congress transitioned the Federal crop insurance program from a program administered solely by Federal employees to a private-sector/government partnership project. In mandating this transition, Congress recognized that “the sales talents and experience of the private sector commissioned agents . . . are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection.” As a result of this demonstrated talent, Congress rested upon the agents’ shoulders the “large burden of program delivery” and “providing full service to the client” including, but not limited to, sales. Independent agents, including IIABA members, have proved instrumental in achieving the program’s goal of helping farmers make well-informed risk assessments and choices about the coverage that they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and skilled at assisting farmers with concerns that directly impact their coverage, such as unit structures and yield guarantee weaknesses. They also have the training and experience necessary to encourage participation of small, limited resource and minority producers, as required under the Standard Reinsurance Agreement (SRA).

DISCRIMINATION

Since approval of a pilot PRP in 2003, IIABA and its members have been concerned about the effect of such programs on the delivery system and preventing discrimination against small, limited resource and minority producers. In fact, The Board of Directors of the FCIC also cited these concerns in November 2004 when it denied all pending PRP applications for the 2005 Reinsurance Year and directed the RMA to proceed with notice and comment rulemaking on the adoption of procedures for approving PRPs. It is easy for RMA to admonish all forms of discrimination; in fact, there are a number of areas in the preamble of RMA’s proposed rules where the Agency goes to great lengths to illustrate the prohibition against such behavior. However, condemning discrimination and actually having the means to police it are completely different issues. Although the proposed rules provide that RMA may not approve PRPs that result in a reduction of services to policyholders or PRPs that are unfairly discriminatory, the rules contain no enforcement mechanism to prevent disruption to the balance of agents and services to policyholders in the current crop insurance delivery system or to detect and prevent covert discrimination against small, limited resource and minority producers. As mentioned previously, there remains one company that continues to offer a PRP in 2005. Unfortunately, we have seen and heard of wide-spread patterns of abuse and discrimination being practiced by this company, all happening under the watchful eye of RMA’s Office of Compliance. If this is occurring with only one company offering a PRP, it is simply unrealistic to expect RMA’s current oversight infrastructure to properly monitor and regulate discriminatory practices, especially if the number of companies offering a PRP grows in the 2006 reinsurance year.

There are also forms of covert discrimination available for companies to employ. For example, the agent network for the delivery of PRP will undoubtedly be driven by the size of an agency’s book of business. While an agent is required to offer all products offered by the company(s) for whom they write, the companies have the opportunity to decide which agents they wish to employ. Conventional wisdom dictates that the obvious litmus test for this decision-making process will be the size of the agency’s book of business. Therefore, those whose book is comprised of accounts from smaller farming enterprises will be passed over for those with the larger, more profitable accounts. If RMA allows this to proceed, the end result will be cherry-picking by the companies to the detriment of small farmers. No agency can survive by servicing only small farmers. Therefore, if only the best and most profitable customers are skimmed off the top, the result will undermine the intent of the law that governs the crop insurance program, a program that is based on serving all farmers of all sizes, without discrimination against smaller farms.

In keeping with Congress’s intent, independent agents currently assist producers, particularly small, limited resource and minority producers, with deadlines for reporting, screening information, quality control, risk assessment and determining the necessary amount of coverage. By doing so, agents then make up the difference by writing coverage for larger farming enterprises. If the proposed rules are implemented and additional PRPs are approved, many independent agents, who receive at most only fair compensation under the current delivery system, would likely stop delivering crop insurance. Companies would likely consolidate their business among a smaller workforce of agents. The smaller delivery system resulting from PRPs would be unable to provide the same amount of individualized service. As a result,

Congress's goal of providing producer education through the crop insurance delivery system would be defeated and farmers would likely experience negative financial consequences from ill-informed risk assessment and coverage decisions.

ADDITIONAL PRP OBSERVATIONS

When section 508(e)3 of the Federal Crop Insurance Act was established, its purpose was to create a vehicle for reducing the Federal subsidy paid to the companies which offset policy costs to the farmer while at the same time, mandating that quality of service to the policyholder is not compromised. When RMA renegotiated the SRA in 2004, among other provisions was a reduction in Federal subsidies paid to the companies. Therefore, there is a degree to which RMA has already created the savings anticipated in 1994 when Congress passed section 508(e)3. Moreover, crop insurance companies have realized significant reductions in Federal reimbursement over the last 11 years in addition to the cost-cutting provision in the new SRA. Therefore, the empirical evidence exists that the FCIP burden on the American taxpayer has continued to decline, while the quality of service to our Nation's agriculture producers has remained static. This will not be the case under a PRP scenario. Proliferation of PRPs will be the equivalent of throwing the baby out with the bathwater, and will create numerous draconian consequences for an agriculture system our nation depends on.

SOYBEAN RUST

Good farming practices are the hallmark of any successful agriculture enterprise. Farmers must demonstrate good farming practices to make certain that in the event of any natural occurrence such as soybean rust, they will be eligible for a payment based on the full amount of the loss. If the farmer fails to follow good farming practices, the farmer could be subject to a reduction in the indemnity due to him. Since soybean rust is an agriculture epidemic that very few farmers had previous knowledge of, several have taken advantage of the resources made available to them by Secretary Johanns, such as USDA's interactive soybean rust web site and the overall national soybean rust plant disease surveillance and monitoring network.

Some circumstances, however, prohibit the farmer from exercising preventive measures regardless of how much forward-thinking he does, which ultimately places unnecessary burden on an already stressful situation. For example, in my home state of Iowa, a number of farmers are being told by the fungicide manufacturers that obtaining supply will not be a problem. However, given the seriousness of the soybean rust situation, supply does not always meet demand. To illustrate my point, when I have recommended to my clients that they should order and apply some preventive fungicide to their crops, often times the amount received is only a fraction of the amount they ordered. The most logical explanation is that the distributors are trying to curb any attempts by the farmers to stockpile unneeded chemicals for potential use in the future. Therefore, even if farmers follow developments as to the identification and spread of soybean rust disease and stay informed concerning appropriate treatments that may apply to their situation, that is not always enough.

As an agent I will take the appropriate steps to ensure that my clients are given the most up-to-date information from the companies, but ultimately, similar to the FDA's handling of the influenza outbreak in 2004, it is incumbent upon the USDA to work in concert with the chemical manufacturers to guarantee availability.

Premium Reduction Plans are the wrong policy at the wrong time. Under PRPs, our Nation's farmers are on the losing end, and the level and quality of service of their risk management will suffer. The access to available plans will be greatly reduced, and the knowledge and understanding of the system will be limited to those farmers who are willing and have the time to educate themselves on the complexities of crop insurance, while all the while servicing their farm on a full time basis. There are people at RMA who seem to think that "direct" insurance, similar to the delivery system employed by companies like USAA—the United Services Automobile Association—is a realistic scenario that can be applied to the crop insurance delivery system. I can assure you that after two decades on the front lines as a Main Street agent, that is an irrational and irresponsible conclusion and therefore lacks any merit whatsoever.

The insurance industry is too complex to speak in generalities, and I implore the Congress to repeal section 508(e)3 before it effectively dismantles the most successful public/private partnership our country has had in over 25 years. I thank the committee for the opportunity to testify before you today, and I would be pleased to entertain any questions you may have.

TESTIMONY
By
GREG BURGER
VICE CHAIRMAN
AMERICAN ASSOCIATION OF CROP INSURERS
To
HOUSE OF REPRESENTATIVES
AGRICULTURE SUBCOMMITTEE ON
GENERAL FARM COMMODITIES AND RISK MANAGEMENT

Washington, D.C.
May 4, 2005

Good morning Mr. Chairman and Members of the Agriculture Subcommittee on General Farm Commodities and Risk Management. My name is Greg Burger, and I am president of Farmers Crop Insurance Alliance, located in Eau Claire, Wisconsin. We are owned by Farmer Alliance Company of McPherson, Kansas. I appear here today in my capacity as Vice Chairman of the American Association of Crop Insurers (AACI).

On behalf of the Board of Directors and members of AACI, I want to thank you for scheduling this hearing. It comes at a very critical time for the federal crop insurance program. Although the program has grown considerably and enjoys broad based support among farmers, ranchers and growers for providing improved risk protection, there are some misconceptions and challenges that need to be more fully researched and understood. My testimony will address each of these aspects of the modern federal crop insurance program.

The Federal Crop Insurance Program Is a Success

While congressional support for the federal crop insurance program historically has been strong and consistent, the Committee is to be specially commended for development and adoption of the Agricultural Risk Protection Act (ARPA) of 2000. ARPA provisions were designed to encourage farmers to buy higher coverage in decisions regarding risk protection and management. We believe ARPA is proving to be a success story and the Committee should be proud of this effort on behalf of all farmers, ranchers and growers.

USDA's crop insurance program participation data as reported by the Risk Management Agency (RMA) confirms our belief regarding the value and contribution of ARPA to building a quality risk protection and management program for American farmers. For the first time, total premium was reported to have reached the four billion dollar mark in 2004, slightly exceeding \$4.1 billion. The average annual total premium for the four years since the passage of ARPA is reported to be more than 50 percent larger than the same statistic for the four preceding years. Net acres insured in 2004 are reported to have exceeded 221 million. Annually, the RMA data indicate that net acres insured have

averaged more than 13 percent greater since ARPA than for the four-year period leading up to it.

The Federal Crop Insurance Program is the Envy of the World

It has taken not only years, but decades to have the federal crop insurance program attain the current levels of participation and benefit for American farmers. And, while certainly there is room and opportunity to continue improving the program, today it stands second to none as a world-class agriculture risk protection and management tool. In fact, other countries such as France have begun to research the program and are even starting their own crop insurance program. In this connection, it is noteworthy to recall that a WTO panel apparently ruled that the U.S. crop insurance program did not suppress prices. This revelation becomes yet another reason the Committee should be proud and protective of the federal crop insurance program that they have created.

A lot of people have contributed to the development and evolution of the modern crop insurance program, however, no effort has been greater than that made by Congress and members of this Committee. On behalf of the AACI membership and the farmers, ranchers and growers we serve, I want to take this opportunity to thank you for your support of a quality risk protection and management program. Given the natural and global market elements they work and live with every day that are beyond their control, America's farmers, ranchers and growers deserve the certainty and predictability of the risk management program you have provided.

All Federal Crop Insurance Program Gains Are Now At Risk

In spite of all the progress we have made over the last few years and despite the tremendous boost the program was given when you enacted APPA in 2000, the crop insurance program is now at great risk. A number of initiatives taken by RMA could destroy in a few years all the gains made over the last 25 years.

RMA's initiatives fall into these categories:

1. RMA is on a mission to push through a premium reduction program that will discriminate against small farmers and create chaos in the marketplace.
2. Additional paperwork and regulatory burdens put on the private sector by the 2005 SRA and other USDA regulations are making the crop insurance program more difficult and costly for the private sector to deliver.

The RMA's Efforts to Force a Premium Reduction Program Upon the Crop Insurance Industry are Inherently Discriminatory Against Small Farmers

Since December 2002, RMA has been on a mission to force premium discounting on the Crop Insurance Delivery System. They have used an outdated section of the crop insurance law enacted in 1994 when reimbursement for delivering crop insurance was almost 32% of premium, to impose premium discounting on an industry that is now reimbursed at a rate of only 21%. They have taken this section of the law, Section 508(e)(3) of the Federal Crop Insurance Act and read it in a vacuum, ignoring all other provisions of law. They have made no attempt to insure that the premium discounting company is not discriminating against small farmers. They are ignoring their own regulations, which require that a company that offers insurance in a State must offer it to all eligible farmers in a State. They are ignoring the Standard Reinsurance Agreement, which requires that companies do extensive training of loss adjusters.

RMA is misrepresenting the plain meaning of the law by saying that the law requires that they implement a PRP rule this year. The law does not require any such thing. If they cannot devise a rule that does not discriminate against small farmers and a rule that meets all of their other rules, limitation and procedures, they should not issue a final rule.

We have heard that in briefings of Congressional Staff, RMA has represented that they must finalize the rule because the companies are clamoring for it. Nothing could be further from the truth. Several companies did apply for a PRP program last year in order to meet the unfair competition of the one company that was approved for discounting. However, this was done only as a defensive strategy. All of the established companies that deliver the program are strongly opposed to the PRP. Only the one small start-up company that is now allowed to offer premium discounts favors the rule. I believe the comments filed on the proposed PRP rule will bear this out.

In the comments filed by AACI's counsel, which are attached as Appendix A), the following major points were made.

1. **When the proposed rule is considered in the context of RMA's record, it is blatant discrimination.**
2. **RMA ignored the history and purpose of the crop insurance program in approving and operating the current premium discount program.**
3. **The approval of a premium discounter's application in 2002 was a violation of established law and regulations.**
4. **RMA never took any action when the original basis of its premium discount approval proved to be false and is compounding this negligence in going forward with the proposed rule.**
5. **RMA has consistently refused to acknowledge the fact that their PRP program will force crop insurance agencies that serve small farmers out of business unless they discriminate.**
6. **The proposed rule's impact is inherently discriminatory and could subject USDA and the industry to massive class action lawsuits.**

7. **The rulemaking process has generated many comments, and we are very concerned that RMA does not have time to develop program procedures and oversight of the PRP program for the 2006 crop season.**

We wish to emphasize this last point. Public statements by RMA management indicate that they are making a sham of the rulemaking process. In a meeting with the industry on April 19, RMA Associate Administrator, David Hatch, stated that the agency would implement a rule allowing premium discounting by July 1, 2005. Therefore, we appeal to Congress to direct RMA to halt the sham process until there can be a thorough investigation of the discriminatory conduct of the current premium discounting program. In our comments on the sham nature of RMA's conduct, we made the following points:

1. **RMA approved the original premium-discounting program with no protections against discrimination and without adequate disclosure to the Board.**
2. **RMA has repeatedly ignored industry complaints about the discriminatory and predatory nature of the current premium discount program.**
3. **RMA sought to go forward with a national premium-discounting program in 2004 and suspended its efforts only when forced by the FCIC Board to conduct a notice and comment rulemaking process.**
4. **RMA has already made a decision that it will go forward with its PRP program regardless of the comments received in the rulemaking process, thereby rendering the process a sham.**
5. **RMA is ignoring the views of the entire crop insurance industry that has served the nation's farmers for many years in favor of the one premium discounting company, and comments of agents and customers of this one company.**
6. **RMA does not have the resources to prevent predatory and discriminatory practices under a PRP program. Thus it would create chaos in the marketplace.**

In our efforts to demonstrate why a premium-discounting program will force crop insurance agencies to discriminate against small farmers or go out of business, we have tried to get RMA to focus on the actual books of crop insurance agencies. They have refused to do so.

Therefore, we have attached as Appendix B data from the Sherry Wegner Agency in Glasscock, Texas. It shows that the agency's average cost of serving a federal crop insurance policy is approximately \$300. It is undisputed in the industry that it is just as expensive to service a small policy as a large one. The Wegner Agency has provided a printout of the actual policies sold by the Agency, with the names of policyholders deleted for privacy reasons. If you will focus on the next to last column on the page, you will find the actual commission paid to the Agency. This data demonstrates that many of the commissions paid are substantially below \$300. In fact, 58% of them are less than

\$300. The Wegner Agency remains profitable because it has some larger policies. Clearly, if a premium discounter is allowed to cherry pick the larger and more profitable policies of the Wegner Agency, the Agency will no longer be able to sever small farmers. It would go out of business.

It is this business reality that we have never been able to get RMA to address. We appeal to Congress to help RMA understand it.

RMA's response to our concerns about discrimination may be that the proposed rule does have some language that prohibits discrimination. However, we believe that RMA has already demonstrated its unwillingness to enforce this new language by its record of allowing discrimination under the current premium-discounting program. Moreover, as several comments on the proposed rule have pointed out, RMA does not have the extensive resources that would be required to enforce such a rule.

Just as important, no rule can trump the laws of economics. No rule can address the simple statement of reality demonstrated by the data provided by the Wegner Agency. A premium-discounting program will make crop insurance unavailable to thousands of the nation's small farmers.

Soybean Rust is a Concern

As a new crop peril, soybean rust is cause for considerable concern across the crop insurance industry. And the industry is, in fact, very concerned about soybean rust, especially given what is known about its destructive potential.

For crop insurance companies, the primary task is one of reducing the level of confusion, especially among its farmer customers and agents. Many situations can create confusion in the crop insurance industry, but the questions and issues accompanying soybean rust thus far are serving to magnify the level that could usually be expected.

With any peril, but especially in the case of a new peril like soybean rust, the primary objective of insurance companies is to develop an accurate understanding among its customers regarding coverage or protection provided by each policy option. Additionally, policyholders need to know the requirements for policies to remain in full force to avoid any potential misunderstandings in the unfortunate event where a loss triggers the filing of a claim. Toward this objective, companies are conducting a variety of educational opportunities, including agent training sessions, customer meetings and customer direct mail communication to help assure farmers have a full and complete understanding of the approved and required practices concerning soybean rust management.

I want to assure the Committee that insurance companies are doing everything we know to do to eliminate confusion on the part of farmers and agents regarding the interface of soybean rust and crop insurance.

Fraud Identification and Control is Improving

No one in the crop insurance industry condones fraud. This committee supported legislation that has assigned greater attention and resources to researching and ending fraud. RMA and the administration have acted aggressively with emphasis on data mining and other means to identify and punish instances of fraud. While, in all likelihood, all fraud has not been stamped out, although that certainly does not make the federal crop insurance program unique in that respect, the general environment is greatly improved and continues to get better. That is our opinion and we thought it should be stated publicly.

Images, especially bad images, seem to be easily perpetuated. Paraphrasing a modern slogan, this crop insurance program is not your old crop insurance program. Things have changed. Oversight has improved. Research and technology is better. The incident of fraud is much less. We encourage the RMA and administration to highlight and promote these changes in an effort to create the proper image of the modern federal crop insurance program. All parties with an interest in the value and utility of the program will benefit from the result, especially the farmer who desperately needs the program to be the best it can be.

Our concern at the membership of AACI is that RMA has instituted so many rules and regulations because of the fraudulent acts of a few that the honest producer is overwhelmed with procedures and vulnerable to severe penalties.

Additional Paperwork and Regulatory Burdens Are Making the Program More Difficult and Expensive to Deliver

Problem definition: To implement the Federal Crop Insurance Act – which includes provisions intending to help control, reduce and eliminate fraud, waste, and abuse in and of the crop insurance program – RMA, working with the authority granted by the FCIC, has developed and finalized certain critical changes to the Basic Provisions for the 2005 crop insurance year. In addition, RMA made other regulatory changes in the new Standard Reinsurance Agreement (SRA) that was adopted in 2004.

While no one condones fraud, waste, and abuse, some of the regulations adopted by RMA are excessively rigid and can result in punitive damages. **For example, some of the changes do not adequately allow for or accommodate common, unintended mistakes and errors of data entry by either farmers or agents and companies, even when there is no adverse pattern of practice.** Nonetheless, under the new provisions, these everyday innocent clerical mistakes would result in substantial penalties at claim filing. The implementation and administration of these regulations, especially after the changes made in 2004, are reaching the point of being overly burdensome and wasteful. Industry resources, both human and capital, are already stressed as a result of the increasing complexity of the insurance program of crop and livestock enterprise risk management. Additionally, the changes establish a discriminatory relationship between USDA agencies regarding the treatment of farmers. For example, reporting errors in the

Farm Service Agency (FSA) records, when discovered, are simply corrected. However, reporting errors in RMA records are not correctable in some instances and penalties can be assessed. This development is occurring in spite of the fact that ARPA called for greater cooperation and reporting and record consistency between the two agencies.

These paperwork and regulatory burdens are too extensive to discuss here, so I have attached them as Appendix C.

RMA Made Unwarranted Cuts in Compensation in the 2005 SRA Based on a Misuse and Suppression of Data

At the time that RMA released its proposed new SRA, we were told that it was based in part on a study done by Milliman USA under a RMA contract.

On March 3, 2005, RMA Administrator, Ross Davidson, appearing before the House Agriculture Appropriations Subcommittee said the Milliman work concluded the industry received an "average rate of return of 15.8 percent over the years 1989-1002 when the average reasonable rate of return was only 14.0 percent."

Both the private industry and Congress have tried unsuccessfully to obtain this study. The private sector filed a request under the Freedom of Information Act (FOIA) on April 27, 2004. Members of this Committee, Mr. Peterson and Mr. Pomeroy, requested a copy of the study in a hearing held on July 21, 2004.

A year later, we still do not have the complete study. We received only part of three of the 28 Milliman reports. In the reports we received, there were serious deletions. We had stipulated that private confidential business information should be redacted. However, we do not believe wholesale deletions of entire sections of 140 pages are appropriate. We have appealed RMA's actions, but our efforts have been stonewalled.

We ask that this Committee join us in demanding that RMA cease the suppression of this information for which it paid over a million dollars in taxpayer money.

Upon reading the partial report that RMA finally released to us, it becomes abundantly clear the authors repeatedly qualified one particular statement referenced at the March 3, 2005 hearing by the RMA Administrator. The following quotes from the November 11, 2002 Milliman USA report to RMA on Historic Rate of Return Analysis are noteworthy as well as instructive:

"Thus, while MPC I insurers have earned a return somewhat in excess of the cost of capital, the returns are somewhat volatile as evidenced by the fact that in the single catastrophe year, the overall rate of return was -15.6% (negative 15.6%). In fact, we would caution against drawing any strong conclusions on the adequacy or excessiveness of the historical returns based on a sample of thirteen years of data, in light of the fact that only one of those years is a catastrophe year. Had

there been a second catastrophe year in the sample similar in magnitude to 1993, the average return over the period would have been below 14%.” [Pages 4-5]

“We caution that actual returns could deviate significantly from the expected returns because of unexpected events. Therefore, a better measurement of whether providers have been reasonably compensated is by comparing mean values over the sample period, and by observing the pattern of difference between actual and reasonable rate of return. ... As can be seen in the table (Table 13, Page 37), the actual rate of return is 1.8% larger than the reasonable rate of return for all years, however, the standard deviation of the difference is 10.2%. **Given the magnitude of the standard deviation, the difference does not appear to be statistically significant.** (Emphasis added) In addition, as noted earlier, this result is quite sensitive to the occurrence of catastrophe years in the sample period. **For example, if there had been a second catastrophe year equivalent to 1993 in this sample period, the historical return would have been below 13.7%.**” (Emphasis added) [Pages 37-38]

“As with most lines of insurance that have a significant catastrophe exposure, insurers expect to earn significant profits in non-catastrophe years and significant losses in years with catastrophes. As a result, average returns over relatively short sample periods are not necessarily indicative of the long-term pattern of returns. Given the experience in multi peril crop insurance over the past 13 years, we would suggest that the historical returns reported herein would tend to overstate long term returns if the frequency of catastrophes is greater than one in thirteen years, and understate such returns if the frequency is lower than one in thirteen.” [Page 38]

In fact, the years selected for the study, 1989-2001, were carefully picked. If the years 1988 and 2002 had been included, the result would have been vastly different. For 1988, a major drought year, the loss ratio was 2.41, the largest in the history of the program. And 2002 was a major loss year with a loss ratio of 1.39. Thus, RMA skewed the result of their study by picking a period in which crop insurance has a loss in only 1 of 13 years (1989-2001), rather than a more representative period of 1988-2002, when crop insurance experienced a loss in three of fifteen years.

Another subject that is important in any profit analysis is the expense side of the equation. The November 11, 2002 Milliman USA report addressed this subject also. Below are several important expense related statements from that report.

“...the FCIC (Federal Crop Insurance Corporation) compensates insurers for the cost of selling and servicing the coverage through the payment of an administrative and operating (A&O) subsidy. This A&O subsidy is intended to cover all costs associated with the sale and servicing of crop insurance policies, excluding, of course, losses. This raises at least two important issues as regards profitability analysis. First, depending on the level of the A&O subsidy relative to actual incurred expenses, there may be a profit or a loss to insurance providers

attributable to the subsidy itself. Second, when evaluating crop insurance expense ratios relative to expenses for other lines of insurance, it is imperative to adjust the ratios to put them on a comparable basis.” [Page 10]

“First, and perhaps most important, the GAO concluded that an expense reimbursement equal to 24% of premium would be reasonable in light of their audit of actual company expenses. Currently, the SRA (Standard Reinsurance Agreement) provides for an A&O subsidy ranging from 21% to 24.5% of premium, depending on the fund and plan of insurance. As a consequence, assuming expenses as a percent of premium have remained constant over time, the current A&O subsidy would not be viewed as excessive, regardless of the historical levels of the subsidy.” [Page 12]

“Second, we found several of the GAO conclusions and recommendations inconsistent with the objective of delivering multi peril crop insurance through the private sector. For example, expenses related to acquiring a competitor’s book of business, or paying incentive compensation to employees, are parts of the cost of doing business in the private sector. If crop insurance is to be delivered through this mechanism, then insurers will have to compete for resources to support crop insurance on the same terms as would any other business activity.” [Page 12]

“Finally, the GAO statement that the expense reimbursement could be reduced in the future because crop prices and premiums will increase must be considered in light of several facts. First, a substantial share of insurer expenses is directly dependent on premium. Agents’ commissions, which represent a significant portion of expenses (more than half according to the GAO report), are usually a fixed percentage of premiums. As to other expenses, a substantial portion of these are related to employment costs, which tend to increase faster than the general level of prices. Finally, premium increases may reflect expected loss increases, which in turn might result in higher loss adjustment expenses. This is especially true for the introduction of new types of coverage such as revenue assurance. Thus, it is unclear whether increases in the average premium per policy would be sufficient to offset the cost increases associated with higher expenses for labor costs.” [Pages 12-13]

“In contrast to the GAO report’s suggestion that the A&O subsidy has exceeded actual expenses, there are data from insurer annual statements that indicate the opposite – that is, that the expense reimbursement has fallen short of actual expenses. These data are available for MPCI for all years from 1992 to the present, from the statutory financial reports insurers file with regulators.” [Page 13]

We believe research of this nature is very important and can be useful in developing improved insights and understandings of the crop insurance industry. However, taking information out of context and attempting to have interrelated findings stand-alone helps create and perpetuate misconceptions—in this instance about the rate of return in the crop

insurance industry. Other than the pages redacted by USDA, the referenced Milliman USA report is attached as Appendix D.

Justice Department Ruling

The final source of industry concern and stress that I will present today relates to the process followed by the government in developing the most recent Standard Reinsurance Agreement (SRA). Previous SRAs had been developed using what everyone knew to include real negotiation activities and efforts. Unfortunately, for the last SRA, which was completed in July 2004, RMA apparently requested and the Department of Justice (DOJ) provided a ruling that disallowed the continuation of real negotiation activities and efforts. Absent true negotiations, companies were left without any traditional means of participating in the SRA development process. As a result, companies were forced for the first time to seek congressional involvement in the SRA development process. While the industry definitely appreciates any and all opportunities to work with Congress, the approach did not provide true negotiating opportunities. In general, the lingering impression by the industry is that something important may have been lost—a true partnership. If that is the case, there is ample reason for the continuing concern about the ruling.

Administration Budget Proposal

The President's FY06 budget regurgitates a series of crop insurance proposals and policies that have either been tried in the past and found wanting or have been proposed in the past and have been rejected. Two wrongs do not make a right. The President's budget would take the crop insurance program in the wrong direction. For example:

- The President would require farmers who receive farm program payments to purchase crop insurance – otherwise know as mandatory linkage. The proposal actually COSTS some \$200 million annually. The general notion behind the proposal is that if farmers are required to purchase crop insurance, demand for ad hoc disaster payments would decrease. The 1994 crop insurance reform act required mandatory linkage. It lasted exactly one year before Congress chose to undo it as some farmers balked at the requirement. Some farmers, given their risk profile, choose to self insure. Moreover, demand for ad hoc disaster payments is generated usually from areas with high crop insurance participation that also suffer from unusually high losses or a series of back-to-back losses – not lack of participation. Participation in the crop insurance program has never been higher than today!
- In order to pay for the cost of mandatory linkage, the President proposes to increase the cost of buying insurance by reducing farmer premium subsidies at all levels of coverage, saving some \$175 million annually. This will force farmers to purchase higher deductible insurance policies as the cost of insurance increases. If the goal is to reduce demand for ad hoc disaster payments, then forcing farmers to purchase higher deductible insurance policies makes no sense. The

Agricultural Risk Protection Act of 2000 INCREASED incentives to purchase higher coverage levels. This proposal starts to undo that act.

- Finally, in order to generate budget savings the President's budget proposal would decrease the payments made on behalf of farmers to deliver the crop insurance program. Similar proposals have been made by the President in the past and rejected by Congress. In fact the crop insurance industry negotiated in good faith with the Administration last year to reduce federal costs to deliver the crop insurance program without impacting service to farmers. Some \$30 million annually is now being saved because of that negotiation. The President's proposals go well beyond that good faith negotiation, attempting to cut another \$140 million or so in delivery expenses. Service to farmers would significantly degrade if these proposals were enacted.

The crop insurance program has been successfully growing over the past 5 years to become the premier risk management tool for American farmers. The President's budget proposals would undo this success. The proposals have been rejected in the past, they should be rejected again!

It is Time for a New Beginning

It is most unfortunate that I had to come before the Committee today and recite what is wrong with the administration of the crop insurance program. Over the 25 years of this program, we have had to overcome serious obstacles and setbacks to achieve the current program. However, during this time RMA management worked cooperatively with the industry to improve the program. Now, we in the private sector feel that we are always trying to fight off new RMA program changes that would seriously undermine the program. Thus, we are going backward rather than forward for the first time in the program's history. If this is allowed to continue, the crop insurance program that farmers rely on will ultimately be destroyed. We ask the Committee's help in restoring forward momentum to the crop insurance program.

**STATEMENT OF BILLY ROSE, PRESIDENT/CEO
CROP 1 INSURANCE, URBANDALE, IOWA**

Chairman Moran, Ranking Member Etheridge, members of the subcommittee, my name is Billy Rose, and I am president and chief executive officer of Crop 1 Insurance, a privately held crop insurance provider in Urbandale, Iowa.

I want to thank the Chairman for convening this oversight hearing to review the significant merits of the Risk Management Agency's premium reduction plan (PRP). While I won't deal with our specific comments on the RMA rulemaking now ongoing to implement Sec. 508 (e) (3) of the Federal Crop Insurance Act (FCIA), I ask that my formal statement, including Crop 1's formal comments on USDA's proposed rule, be made a part of the hearing record.

I'm accompanied today by Mr. Kelly Deterding, Senior Vice President City Bank Texas, Windmark Insurance Crop Division, a Crop 1 affiliate based in Lubbock, Texas, as well as Mr. Raymond Grabanski, President of Progressive Ag Systems from Fargo, North Dakota, who represents Crop 1 in the Dakotas, Minnesota and Wisconsin. Both gentlemen are available to answer any questions you may have. In addition, our formal statement for the record includes several letters of support from satisfied farmer customers and crop insurance agents.

As the subcommittee knows, Occidental Fire & Casualty Insurance of North Carolina, with its managing agency, Crop 1 is the only crop insurance provider today approved by USDA to provide PRP, or what we call our Premium Discount Plan (PDP). We welcome the opportunity to explain how Occidental and Crop 1 have made PRP work. Crop 1's estimates show PDP has saved farmers over \$1 million in premium cost in the last two years. It is important to note that this premium reduction is strictly from expense savings and the farmer-paid portion of the premium available to pay losses has not changed as a result of the PRP. Thus, this premium reduction does not increase risk for insurers, reinsurers, the FCIC, or the American taxpayer.

Crop 1's PRP product is available in 15 states, many of which are represented by the members of this subcommittee. To date, Crop 1 has sold policies in 682 counties in those states. And, given the opportunity to service more farmers in more states, we will expand our service in a prudent manageable business manner.

It is our understanding six other companies have applied to RMA for approval to sell PRP products. It is Crop 1's hope more companies will be approved because we strongly believe enhanced competition is good for the industry, the American farmer, and taxpayers.

PHILOSOPHY, HISTORY, INNOVATION, OPERATION OF CROP 1

The business philosophy of Crop 1 agents is simple: Provide farmers the best possible crop insurance product -- with good service -- at the best price. We and our agents can successfully deliver on this philosophy because we've developed the technology and processes necessary to provide coverage and services to producers while controlling our administrative and operations expenses, coming in within the expense allowance provided by USDA.

My goal has always been to help farmers reduce their insurance costs and the time it takes agents to analyze the different risk management options available to farmers today. Before founding Crop 1, I managed a business helping farmers obtain loans and crop insurance. I saw first hand how hard it is for many farmers to make ends meet. More importantly, as a crop insurance agent I saw how difficult it is for them to come up with the extra cash to buy the higher levels of insurance coverage they actually needed. In addition, I saw how much time it takes to analyze all the different crop insurance options available to farmers. This is especially difficult when evaluating the marketing alternatives that must be considered when developing a risk management plan.

I decided something needed to be done to help the American farmer reduce his crop insurance cost and to help agents better analyze the different risk management options with their farm customers. That led to the development of Crop 1.

I worked closely with the RMA to ensure our program complied with all the rules and regulations governing the crop insurance program while offering a savings to our farm customers. I worked closely with our agents, who now number over 400, to develop a program that works for them and helps them provide better service to their farm customers.

It took a lot of hard work by a dedicated team of employees at Crop 1, a team largely made up of people who, like me, have lived in rural America. This teamwork allowed us to largely achieve what we set out to do. We help farmers purchase higher levels of insurance coverage without significantly increasing their cost. We developed software enabling agents to efficiently analyze years of history and provide counsel and advice to their farm customers. We developed Internet websites for all of our agent affiliates, and are continuing to enhance those websites with information for both agents and their customers.

Today, Crop 1 offers PDP on all federally reinsured crop insurance programs except CAT, and offers farmers a guaranteed savings of up to 10% on the farmer-paid premium. PDP is available for all crops in Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas, Washington and Wisconsin. It is important to note that the reduced premium (savings) is strictly from expense reductions and the portion of the farmer premium available to pay losses does not change. Thus, this type of premium reduction does not bring more risk to the insurer, reinsurer, or federal government.

We are fortunate to have a well-managed insurance company supporting us which also believes in our goal. Occidental Fire & Casualty of North Carolina has a surplus of over \$100 million. More importantly it has senior management with many years of crop insurance experience.

Attached is a letter from Ken Coon, senior vice-president of Occidental. Crop 1 collaborates closely with Occidental, which in turn provides oversight and support, as discussed in the letter from Mr. Coon.

In addition to support and oversight from Occidental, PDP is backed by five highly rated private reinsurers. This year our reinsurance treaty was over-subscribed and we have excellent reinsurance support for our program.

As the members of the subcommittee can readily see, Occidental and Crop 1 intend to be in the crop insurance business for a long time, providing continuing service and innovation to our farmer customers.

WHY PRP AND WHY NOW?

The issue before us today is this: Is a federal program allowing premium discounts to farmers in need of affordable crop insurance a good idea? Or put another way, should companies like Crop 1 – and hopefully, other firms which will apply to sell PRP -- providing the best available crop insurance product at the best possible price to the farmer, be permitted to continue to offer this valuable service?

The answer, based on our experience, is a resounding “yes.” However, our experience also suggests not all producers and agents will want a PRP. That’s fine. We strongly believe producers should have the option to purchase crop insurance at a discount. We believe in free markets, competition, and playing by the rules.

Many on this subcommittee participated over the years in the various overhauls of the federal crop insurance program, including the efforts which led to authorizing PRP. As you’ll recall, Congress enacted PRP authority in 1994 to give farmers more options to manage risk by allowing for price competition among crop insurance providers, all part of the broader goal of increasing farmer participation in the federal crop insurance program.

Such forward thinking is axiomatic to successful modern business, and particularly appealing to entrepreneurs like me: Competition spawns innovation, and innovation, properly managed increases quality, improves service, and lowers price. This is why we have PRP. It is an innovation sorely needed in an industry just beginning to move into the 21st century.

Congress, in authorizing PRP, recognized risk management tools and least-cost production are not mutually exclusive. Enhanced competition provides incentive to others, particularly smaller companies, to participate in the crop insurance market. Let’s not forget: The crop insurance industry, like much of production agriculture, is consolidating. In 1985, there were more than 50 companies in the crop insurance market; at the time Crop 1 entered the market, there were less than 20, and the largest companies control the lion’s share of the market.

There are those who contend PRP will somehow “destabilize” the crop insurance industry. I submit PRP, rather than upsetting the industry balance, will serve to help to stabilize and vitalize the crop insurance industry, so it can provide to farmers exactly what Congress always intended:

Readily available -- and affordable -- crop insurance coverage that meets an individual farm operation's unique situation and demand.

One of the primary benefits of PRP is it causes those crop insurance companies who wish to offer a PRP to operate within the administrative and operating expense budget authorized by the FCIC. Today, some companies have operating costs exceeding that A & O budget. These companies are forced to rely on speculative underwriting gains to cover operating expense. This is not good business.

When we have a year with poor weather or bad prices, companies that rely on underwriting gains may not be able to pay their operating expenses. Losing a crop insurance provider or two is what destabilizes the industry. That has happened in recent years because companies have operating costs exceeding A & O reimbursement. The PRP program protects companies, the American farmer, and the American taxpayer from such situations because it causes them to operate within A & O budgets. This makes good business sense.

We do not believe that companies should be forced to offer a PRP. Many agents and companies may choose to operate with the traditional business model. They should have that right. But, we believe that the traditional model presents a greater risk to the industry and American taxpayers.

We believe that the PRP enhances the ability of a new company like Crop 1 to enter higher risk crop insurance markets. If companies must rely on underwriting gains to pay their operating expenses they can only realistically operate in states where they are fairly confident they will receive an underwriting gain. However, under PRP a company can be confident it can pay its bills even without an underwriting gain. This permits a firm to go into higher risk states where it has historically been difficult to generate underwriting gains.

For example, this past year Crop 1 expanded into Texas. Historically, loss ratios in Texas have been relatively high. Without PRP, I doubt that we would have entered the Texas market. However, with PRP we not only entered the Texas market, we added more volume this past year in Texas than we did in any other state, and by a wide margin.

To Crop 1, PRP is the next logical step in the evolution of the crop insurance industry. When first established, federal crop insurance was available only to drought-ravaged Plains states; today, crop insurance is available in all states. For decades, federal crop insurance was only available on grains, oilseeds and other program crops; today, it is available on almost all crops, including specialty crop production. In 2000, with passage of the Agriculture Risk Protection Act (ARPA), Congress provided first time authority to pilot test livestock risk protection insurance, giving livestock producers a much-needed risk management tool previously denied them.

And lest we forget, in 2000 ARPA included language restating the need for less expensive federal crop insurance and enhanced price competition, reinforcing congressional intent to authorize crop insurance providers the opportunity to offer PRP products.

Prior to each of these landmark changes, there were those clamoring that such a departure from the traditional system of providing crop insurance would mean the end of -- or at the very least,

severe damage to -- the crop insurance industry. However, Congress stood by its commitment to enhance farm risk management options, and today we see an industry where these predicted disasters are now revenue centers for crop insurance companies. So much for Chicken Little. The sky did not fall.

Some critics assert because nearly 80% of eligible acres were enrolled in the federal crop insurance program in 2004, innovations such as PRP are unnecessary. Seventy-five years ago naysayers would probably have claimed since we farmed 80% of the arable farmland in the U.S., we didn't need tractors. Competition and innovation are what has made American great. They should be encouraged, not discouraged.

While increasing participation was one reason Congress authorized PRP, this was not the only reason. Congress decided price competition among crop insurance companies was not necessarily a bad thing; in fact, Congress correctly reasoned price competition would bring benefits not only to farmers, but to the crop insurance industry as a whole. Crop 1 agrees.

While it is important to keep acreage enrollment as high as possible, it is equally important that premium price competition keeps prices low, rendering higher coverages more affordable. Allowing farmers to purchase higher levels of coverage without significantly increasing their operating cost was one of my goals in creating Crop 1.

The industry's goal -- and certainly the explicit intent of Congress as evidence in 1994 and again in 2000 -- is to protect farmers from risk, allow them to choose coverage levels appropriate to their individual risk management needs, and, implicitly, to protect American taxpayers from costly disaster programs and insurance company bailouts. As noted in the attached farmer and agent letters, we have proven that PRPs encourage farmers to buy higher levels of coverage.

PRP-enhanced price competition, and the innovation among companies that will result, are key to *maintaining* historically high farmer participation levels, increasing coverage levels, and operating in an industry in years where there may be no underwriting gain. Therefore, it's in the farmer's best economic interest and that of the crop insurance industry to keep competition among the remaining crop insurance providers as robust as possible while operating within a budget that is not reliant on uncertain underwriting gains. This is what PRP helps to ensure. Crop 1's success is tangible evidence of this fact.

Prior to PRP, crop insurance companies did not compete on the premium price offered to producers, but rather competed with each other on agent commissions. Companies recruited other firms' agents by offering higher and higher commissions, leading to the departure from the marketplace of companies that could not afford the bidding war. While we do not support a federal cap on agent commissions, Crop 1 reiterates that PRP allows companies to compete not just on which firm can pay the most to an agent, but on price and service to their customers -- exactly the way other successful businesses operate.

Crop 1 embraces the premise of universal availability underpinning the federal crop insurance program. However, with the advent of PRP, universal availability takes on a new dimension. With Crop 1's entry into the crop insurance market, the federal government stepped away from

an arbitrary coverage price-setting function, instead providing parameters and the necessary strict oversight – including revocation of PRP authority for bad actors -- to allow farmers to confidently shop price as well as policy coverage and service when seeking crop insurance coverage.

Some argue a farmer's crop insurance purchasing decision is somehow dramatically complicated by factoring in price. Crop 1's experience demonstrates our farmer customers are not the least daunted by shopping price. In fact, farmers expect to factor in price on everything to do with their farming operation, so they welcome the ability to compare prices among crop insurance providers.

Crop 1's experience also shows us that given the ability to shop for crop coverage among providers both large and small, some offering PRP and others not, farmers ultimately seek the best package of coverage for their unique farming situation. Just as not all agents align with the company providing the highest commission, not all producers align with the company offering the lowest premium. There is balance, equilibrium not achievable without enhanced competition.

This point is best made by one of our Iowa customers, who said, "The premium discount enabled us to increase our coverage level with the same premium dollars. *We feel it is very important for the crop insurance structure to be more of a 'free enterprise' and less of a bureaucracy.*" (Emphasis added)

PRP OVERSIGHT NEEDED

Crop 1 is the best example – because it's the only example – of how Congress' foresight in authorizing PRP gives smaller companies a chance to compete more effectively with larger firms. A marketplace dominated by a few large companies robs farmers of choices and the opportunity for cost savings. Market domination also limits industry innovation because it removes incentives for change.

We accept and endorse vigorous RMA control and oversight over companies seeking to offer PRP. Farmers deserve to do business only with companies economically viable to participate in the program, and we believe RMA is pursuing a correct balance between vetting new entrants and adequate regulatory controls to protect farmers.

Any firm applying for PRP authority must demonstrate that its cost savings are realistic and demonstrable so as to prevent unfair competition based upon pie-in-the-sky cost savings projections. At the same time, RMA should revoke approval of any company offering PRP which does not meet the federal standards of performance.

RMA further must have an efficient regulatory mechanism to prevent companies from providing coverage only to particular geographic areas, crops, groups and/or individuals because the company perceives a lower risk of loss, i.e. "cherry-picking." As stated previously, Crop 1 enthusiastically supports the requirement that a company offering PRP make it available on all crops and to all producers in all states in which it does business. Further, Crop 1 supports

RMA's emphasis on enhanced marketing efforts to small and limited-resource, minority and female producers.

CONCLUSION

Crop 1 commends Congress for having the foresight to authorize PRP in 1994 and reinforce that effort in 2000; we also applaud USDA for seeking to make permanent the process and criteria by which companies apply for and are approved to offer PRP, as well as providing the oversight critical to PRP's success.

As the only company currently approved by USDA to offer PRP products, Crop 1 fully understands its PDP program is a case history which can be studied by this subcommittee and others who need to understand how well PRP works in the real world when offered by a company which takes its responsibility to the farmer customer seriously.

PRP is the latest step in the nearly 75-year evolution of the federal crop insurance program. Each time innovation has been proposed for the crop insurance program, there has been resistance, and ultimately, that resistance has been shown to be unwarranted. Crop 1 is confident history will repeat itself.

Given an opportunity to grow and expand as more companies enter the marketplace, PRP will become an even more important aspect of farm risk management, if only because PRP enhances competition among crop insurance providers, and inevitably leads to better products and services for the farmer customer.

Crop 1's experience demonstrates over and over again that including price comparison in the crop insurance shopping formula is a welcome improvement for farmers who constantly battle to develop the best possible combination of crop insurance options for their particular farming situation. To paraphrase one of our Iowa customers, shopping for crop insurance needs to be more free enterprise and less bureaucracy.

For the American farmer struggling to attain and maintain least-cost production, Crop 1 and its PDP program represent the first opportunity within the federal crop production program to shop and compare crop insurance coverage by price. This allows Crop 1 to deliver again and again on its business philosophy: We provide farmers the best available crop insurance products and service at the best possible savings.

Mr. Chairman, I thank you and the subcommittee for your attention, and I'd be happy to answer any questions you may have.

Respectfully submitted,

Billy Rose
President and Chief Executive Officer
Crop 1 Insurance
Urbandale, Iowa

CROP INSURANCE RESEARCH BUREAU, INC.
10800 Farley, Suite 330 ♦ Overland Park, KS 66210 ♦ (913) 338-0470

Testimony of Mike Sieben, Vice Chairman
Crop Insurance Research Bureau, Inc.

My name is Mike Sieben, and I live in Manhattan, Kansas. I currently serve as the Vice Chairman of the Crop Insurance Research Bureau, Inc. (CIRB) and am employed as the crop insurance Vice President for Farm Bureau Mutual Insurance Company. Farm Bureau Mutual is involved in the delivery of federally reinsured crop insurance to farmers in eight states – Iowa, Minnesota, Kansas, Nebraska, South Dakota, Utah, Arizona and New Mexico.

CIRB is a national trade association whose members are involved in the delivery of federally reinsured crop insurance to the farmers of this nation. CIRB's twenty-three member and associate member organizations represent a broad cross-section of the crop insurance industry, including companies who hold a Standard Reinsurance Agreement with the government, others who write only private crop-hail insurance and both reinsurance brokers and reinsurance companies who assist in providing capacity to the crop insurance industry.

The Crop Insurance Program is one that Congress can be proud of. Since the Crop Insurance Act of 1980 when this unique public/private partnership was crafted, the program has grown beyond what its originators could have imagined. Federally reinsured Multiple Peril Crop insurance ("MPCI") currently covers approximately 83% of eligible crop acreage in this country. Farmers today have risk management options that are far more extensive than ever before with the ability to choose from yield-based products to various types of revenue products and group coverage. Numerous pilot programs are underway to bring even more products to America's agricultural

producers. Coverage is coast-to-coast and border-to-border, and our crop insurance system makes us the envy of the world. Nonetheless, this is a program that is complex, and challenges are always present. I will address several of these challenges in my remarks.

The Risk Management Agency is charged with the responsibility of overseeing this diverse MPC I program and making sure that taxpayer dollars are appropriately expended. Because the program is both expansive and complex, issues emerge that sometimes find RMA and the industry at odds. I am pleased to say that those are the exception and not the rule. For the most part, the working relationship between RMA and the industry is healthy and solid. Both RMA and the Industry share the best interest of the producer and issues are resolved in a manner that best serves producers. Dozens of meetings and thousands of phone calls take place each year between the two parties. This has been the case for twenty-five years and it is, in large part, why this program works so well.

I will restrict my oral comments to those you have specifically asked me to address - the Premium Reduction Plan (PRP) and Asian Soybean Rust. However, I have taken the liberty of addressing some other issues in written comments, which you have.

CIRB acknowledges that the concept of a premium discount to farmers who utilize crop insurance is, on its face, appealing. On the other hand, CIRB is concerned that the potential for unintended consequences under the proposed rule in the delivery mechanism of federally reinsured crop insurance. For that reason, CIRB opposes implementation of the proposed rule and recommends suspension of any further approvals for the Premium Reduction Plan ("PRP") until a comprehensive study of the impact of the plan can be made. CIRB feels that, as proposed, PRP will have an unsettling effect on the crop insurance industry and producers. Specifically, CIRB is concerned that PRP will create a competitive imbalance, promote industry insolvency and will lead to discrimination against smaller producers, smaller agents and states that

have historically poor underwriting performance. These factors will threaten the basic premise of the federally reinsured crop insurance program – universal access.

Should PRP be implemented after review and analysis of the comments, CIRB recommends the following revisions to the proposed rule:

CIRB believes that RMA does not have adequate resources or expertise evaluate proposed PRP submissions in a timely and appropriate fashion. In that regard, CIRB feels that an independent CPA or auditing firm(s) should be retained to provide comprehensive and objective evaluation of PRP plans that are submitted to assure that such plans meet or exceed the requirements outlined in the regulations. The recommendations of that firm should then be submitted to the FCIC Board for ultimate dispensation. Additionally, all approved plans should likewise be evaluated by the same CPA or auditing firm(s) at the end of each crop year to assure compliance with the established criteria for offering PRP.

CIRB notes that the current proposed rule does not provide for penalties or sanctions for a submitter that does not achieve the projected savings. The rules must provide for penalties for misrepresentation of a provider's ability to provide PRP according to the established criteria; i.e., reject any and all future premium reduction plans, charge the amount of the premium reduction as a policy surcharge in the following year, require that amount as an additional expense in each of the next two reinsurance years, etc.

CIRB also believes that the proposed rule is not clear as it relates to ceding commissions and contingency commissions. To clarify, the rules should explicitly not allow reinsurance ceding commissions to offset expenses because this discriminates against those companies who do not rely heavily on outside reinsurance. Contingency commissions should be included as expense.

Recommendation

CIRB does not recommend further implementation of the PRP plan unless or until a comprehensive study has been completed showing the likely long-term effects of PRP on the program as a whole. This study should evaluate the potential impact of PRP to universal accessibility, the implications to the delivery system and, most importantly, the effect on the farmer. Should implementation of PRP move forward, the rules must be strengthened, clarified and a strict plan should be in place for how the approval and monitoring process will be executed. Further, procedures must be in place to evaluate the submission at the end of the crop year to assure compliance with the plan.

Asian Soybean Rust

First of all let me say that RMA has been quite clear that Soybean Rust is a covered peril so long as the farmer utilizes good farming practices in the management of their crop. Of course, we have no idea how severe this disease will be but the potential damage that can be caused is staggering. We have only to look at what has transpired in Brazil to understand this fact.

From an insurance perspective we are being as proactive as possible and providing producers with as much information as we can on how their insurance coverage will work. Rust will be treated in much the same manner as other covered perils where control measures exist. Farmers will be expected to take appropriate measures to mitigate losses from the disease. The March 28 RMA Informational Memorandum (*Exhibit A*) states “. . . farmers must use good farming practices to ensure that in the event of any naturally occurring disease outbreak, such as ASR, they will be eligible for an indemnity based on the full amount of loss.” RMA has directed the Industry to communicate this to agents and producers. Subsequent to this memorandum RMA has issued a brochure (*see Exhibits B&C*) to assist in the educational process. Companies are also addressing the issue through their agent and adjuster training activities.

One frustration that the companies have is that Manager's Memos are released later than promised and often are clarified or updated mid-policy. This places a tremendous strain on companies because if a Manager's Memo is late, we have missed training meetings with agents and adjustors and any updates to our computer systems or mailings is an additional expense for our companies.

We have some guidance from RMA in place on Asian Rust but if past history is any indication, we will see changes and updates to policies through the crop season.

Despite the tremendous amount of publicity in the news media on the Internet, through the Extension Service, etc. there is much to learn about this devastating disease. The insurance industry along with RMA will continue to analyze this information in an effort to assure that all clarity, from an insurance perspective, is brought to this issue.

Conflict of Interest on Loss Adjusting

RMA recently changed how loss adjusting is conducted in the field. In the past, an agent could supply an adjustor with a map and policy information on a claim which was submitted by farmers. The cooperation ensured that claims were adjusted quickly and the farmer was paid. RMA has now tightened these rules to the point where a loss adjustor cannot even use the telephone to call a farmer and say he is on his way to the farm. Rather than an adjustor being able to utilize the data and records that an agent has available, the adjustor would need to go to FSA to obtain the records. Obviously, in many parts of the country, the FSA office could be in a county seat which is 30 miles from the farmer in one direction and 30 miles from the adjustor in another direction.

Clearly, there needs to be some separation between the agent and adjustor to protect against fraud. However, more and more the crop insurance program regulations seem geared to the small percentage that engages in illegal practices but it penalizes the

majority of honest program participants. Excessive regulation and requirements dramatically increase the costs for companies and do not provide better service for our farmer customers.

President's Budget Proposals Relating to Crop Insurance

CIRB was disappointed with the proposed cuts to insurance providers in the President's 2006 fiscal year budget. Crop insurance is a critical part of the overall risk management strategy of many farmers. It is, however, a complex program that puts significant stress on the ability of insurers, regulators and agricultural producers alike to keep up with frequent changes—both big and small—each year.

The SRA provides the framework defining the relationship between the government and industry. Recognizing the necessity for program stability, it has customarily been in place for several years at a time. On July 1, 2004 a new SRA went into effect for the 2005 reinsurance year. The SRA was the product of months of arduous meetings and discussions. In the 2005 SRA, the government sought and achieved reductions totaling approximately \$36,000,000 from its private sector insurance partners. Most private insurers could ill afford these cuts, but RMA was stalwart in its position and there was little choice for reinsured companies but to sign the agreement or leave the program. Companies immediately began the job of building business plans that would help them cope with the cuts and at the same time not reduce service to producers.

If the additional cuts proposed by the Administration are realized it would call into question the legitimacy of the recently signed SRA. Companies are expected to live up to the provisions of this document as evidenced by the millions of dollars expended annually by them in costs associated with maintaining program compliance. It is reasonable to expect the government to live up to its commitments spelled out in the agreement as well.

The proposed cuts to the program proposed by the Administration also affect the reinsurance industry, in many ways an invisible partner in the federal crop insurance program. When program changes are made, frequently the affect on the reinsurance industry is not considered. The federal government could not possibly provide coverage for all the risk that is encompassed in the crop insurance program of today. Private reinsurers cover approximately 50% of the total risk that is assumed within the program. If there is not sufficient stability and return for these global companies, they will simply find other places to invest their capital, leaving SRA signatories without sufficient means to hedge their portfolio risk.

We urge Congress to reject the Administration's proposed cuts to the administrative and operating expenses (*Exhibit D*). The A&O has been reduced to a point that, on average, SRA holders are now operating from 8-10 points over what they are currently being paid (*Exhibit E*). In order to absorb such shortfalls, companies must dip into underwriting gains to make up the difference. RMA has not made a convincing case for further reductions.

We also urge Congress to reject the Administration's proposal to increase the government's net book quota share. One of the objectives of the Crop Insurance Act of 1980 was to create a program where private insurers would bear risk. As a result over the years more and more risk has been assumed by the private sector. There is no justification to deviate from that model especially given that this would be outside the most recent agreement signed by companies.

Insurers that sell and market federal crop insurance today have a strong commitment to efficiency, program integrity and providing the best possible service to farmers. They also work very, very hard to do these things within the boundaries of the Standard Reinsurance Agreement. Companies must have assurance that the federal government, their partners in this venture, will honor the SRA in the spirit in which it was intended and not make unilateral changes through the budget process.



Exhibit A

United States
Department of
Agriculture

Risk
Management
Agency

1400
Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

INFORMATIONAL MEMORANDUM

TO: All Reinsured Companies

FROM: David C. Hatch /s/ Heyward Baker for 3/28/2005
Acting Deputy Administrator, Insurance Services Division

SUBJECT: Asian Soybean Rust (ASR) Press Release and Questions and Answers

BACKGROUND:

Since ASR has been found in the United States, a variety of concerns have arisen from producers of soybeans and other legumes asking whether crop insurance will cover losses linked to the disease. The Risk Management Agency (RMA), has issued information about ASR and Federal crop insurance coverage on our Website www.rma.usda.gov, beginning July 2004 and will continue to update the site as necessary.

The disease is an insured peril under the Federal crop insurance program. However, as with all crop insurance policies and plans of insurance, farmers must use good farming practices to ensure that in the event of any naturally occurring disease outbreak, such as ASR, they will be eligible for an indemnity based on the full amount of loss. If good farming practices are not followed, production attributed to the failure to follow good farming practices is assessed, resulting in a reduction in the indemnity due the insured. If crops become infected, RMA recommends that insured producers document the date of discovery of the disease, any recommendations received from agricultural experts, and actions taken regarding the application of appropriate control measures. RMA will issue more detailed guidelines regarding good farming practice determinations and documentation requirements in the near future.

It is critical that all soybean crop insurance policyholders understand the position of the RMA and the Federal crop insurance program in regards to providing crop insurance coverage to soybean crops potentially affected by ASR. As with all matters related to the crop insurance policy, the primary responsibility to communicate such information to policyholders rests with the Approved Insurance Provider (AIP). In addition, RMA intends to continue to post information on the RMA Website and supplement and complement AIP communications on ASR through a variety of external parties.



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

An Equal Opportunity Employer

INFORMATIONAL MEMORANDUM

2

ACTION:

Attached is a press release and a list of questions and answers to help facilitate understanding of the issue. This information is not intended to address every situation that might occur in the field but should serve as an assurance that in most situations, when the policyholder has followed good farming practices as defined in the crop insurance policy, protection against yield losses resulting from ASR will be provided.

Please immediately distribute this information in a manner necessary to reach all affected policyholders and confirm with Heyward Baker, Director of the Risk Management Services Division at Heyward.Baker@rma.usda.gov when the information is distributed to all soybean policyholders.

RMA will continue to monitor issues associated with ASR working closely with other USDA and government agencies, University and Extension personnel, agricultural experts, and the AIPs and will provide additional guidance and information as necessary.

DISPOSAL:

This memorandum is for the purpose of transmitting/updating information and the disposal date is December 31, 2005.

Attachment (2):

cc: All Risk Management Field Offices
All Other Interested Parties

**Do you know
what to do
in case of
Soybean Rust
loss?**



United States Department of Agriculture
Risk Management Agency
1400 Independence Ave. SW
Washington, DC 20250
www.rma.usda.gov



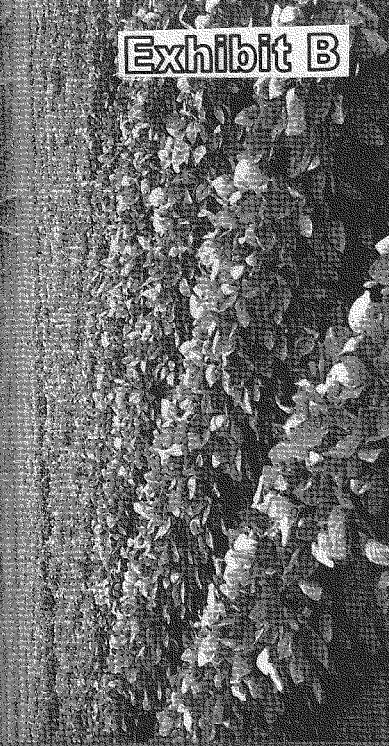
Risk Management for the
New Millennium



**Soybean Rust,
Crop Insurance,
and You**

www.usda.gov/soybeanrust

Exhibit B



Insurance Claims and Soybean Rust

Federal crop insurance covers losses due to Asian soybean rust. The losses must be unavoidable due to naturally occurring events and insured farmers must follow the good farming recommendations of agricultural experts such as extension agents and certified crop consultants. Farmers should document advice received and actions taken. Please check with your local experts for advice about prevention of and treatments for soybean rust. If you have questions regarding your insurance coverage, you should contact your insurance company.

While disease is an insured peril under the Federal crop insurance program, damage due to the insufficient or improper application of available disease control measures is not.

Failure to purchase and apply recommended control measures because of the costs of such measures is not an insurable cause of loss. Producers must be knowledgeable of any pending outbreaks and the control methods recommended by local agricultural experts, such as extension agents and certified crop consultants, used in their area to combat the disease.

Appropriate treatment may vary—from timing of application (pre- or post-discovery of the disease), frequency, and choice of chemical or other determining factors. If crops become infected, it is recommended that farmers document discovery of the disease, any recommendations received, and actions taken regarding appropriate control measures.

www.usda.gov/soybeanrust

It is the responsibility of the insurance companies to verify that losses are unavoidable due to naturally occurring events. This includes verifying that farmers followed good farming practices, documenting that chemicals or application equipment were not available, or that natural occurrences (e.g., excessive moisture) precluded access to the crop to apply the recommended treatments on time. If good farming practices are not followed, production attributed to this failure must be assessed and any indemnity will be reduced. This is true for all insured farmers regardless of their plan of insurance.

Insured farmers should follow developments as to the identification and spread of Asian soybean rust disease and continue to stay informed and updated concerning appropriate treatments that may apply to their situation. In all cases, it is essential for insured farmers to document actions taken to combat this disease. The latest information on the spread of Asian soybean rust is available from local experts and from USDA's Web site at: www.usda.gov/soybeanrust

If your crop becomes infected or if you are concerned about what you should do to prepare for soybean rust, you should contact a local agricultural expert as specified in your policy. If you choose to consult an extension agent, USDA's Web site www.usda.gov/soybeanrust can help you identify your nearest extension office by clicking on "Contact my local Extension agent." If you are concerned about the requirements under your policy, you should contact your local crop insurance agent who can explain the importance of complying with those requirements and will explain your rights under the policy.

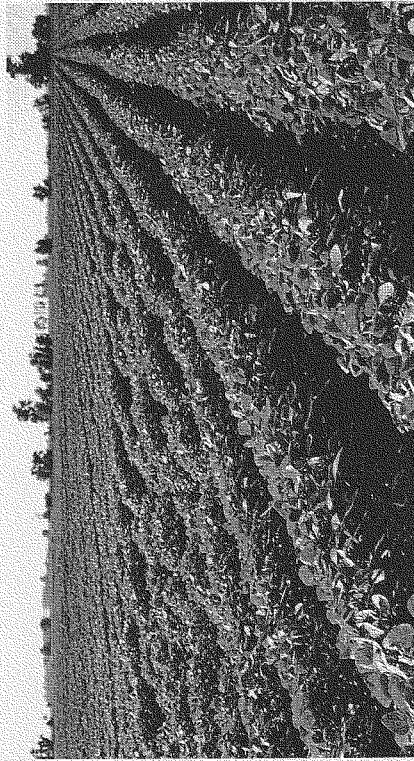



Exhibit C

Crop insurance addresses concerns

TARGETING Soybean Rust



In order to be eligible for Federal crop insurance indemnity payments, insured farmers who are concerned about the impact of Asian soybean rust must **use good farming practices** and **follow recommendations of local agricultural experts**, such as agricultural extension agents, or other local experts, to control this fungus. Farmers should also **talk with their crop insurance companies** about complying with the terms of their crop insurance policies. While disease is an insured peril under the Federal Crop Insurance Program, damage due to the insufficient or improper application of available disease control measures is not. In all cases, it is essential for insured farmers to **document recommendations they received and actions they took** to combat this disease. More information regarding Asian soybean rust disease and its treatment is available from local experts and from: **www.usda.gov/soybeanrust**

United States
Department of
Agriculture

Risk
Management
Agency

USDA

RMA

USDA is an equal opportunity provider and employer.

Exhibit D

ADMINISTRATIVE & OPERATING EXPENSES 1993-2004

Steady decline despite increase in regulatory requirements placed upon companies

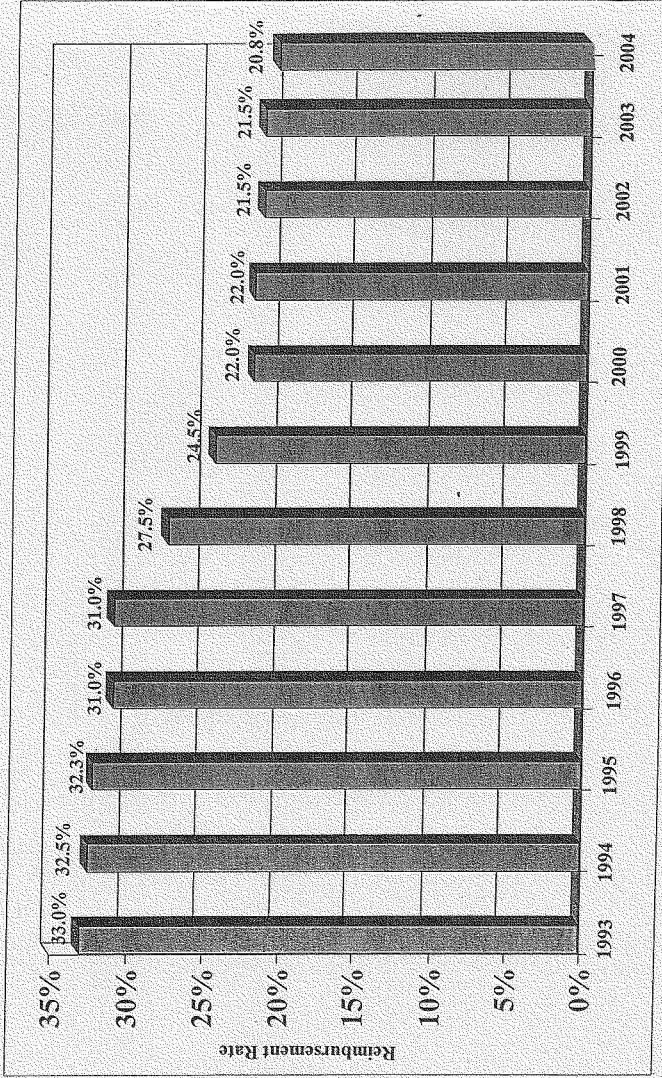


Exhibit E**Expense Ratio Comparisons
Between Types of Insurance**

These figures include both companies that use agents and direct writers and are the latest figures available.

Type of Insurance	Expense Ratio*
Farm	36.6%
Private Pass Auto	35.5%
Homeowners	37.6%
Commercial Multi-Peril	47.1%
Expense Ratio for all Lines	36.2%
Federal Crop Insurance (Est.)**	28.4%
Expense Reimbursement (Est.)	20.8% (ave. across all products-APH, revenue, etc.)
Extent to which companies are under compensated (estimated)	7.6%

**Best's Aggregates & Averages- 2003 Direct Business Written*

*** Based on NCIS March, 2004 update to 1999 PWC report*



12125 Woodcrest Executive Drive, Suite 100, St. Louis, MO 63141, Phone: (314) 576-1770, Fax: (314) 576-2786

**Statement of the
American Soybean Association**

**Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
U.S. House of Representatives**

May 4, 2005

This statement is submitted on behalf of the American Soybean Association (ASA), which represents 26,000 soybean producers on national issues of importance to all U.S. soybean farmers. ASA appreciates the Subcommittee's attention to the timely issues facing the Federal crop insurance program. Because of the overwhelming concerns of soybean producers about soybean rust and their crop insurance coverage, our statement will focus solely on this issue.

Finding effective policies to address soybean rust is a top priority for ASA. During the past two years, we have been the leader in soybean rust education. We have provided continuous information to our membership, and nearly 2,000 producers have participated in seminars hosted by ASA in cooperation with USDA and industry partners. We produced and distributed 60,000 copies of the 20-page ASA Soybean Rust Reference Guide. Through print, radio and the Internet, ASA has reached more than 250,000 U.S. soybean producers over the last two years.

The United States is the world's leading soybean producer and exporter. The farm value of soybean production last year was \$18 billion, second only to corn among U.S. crops. Soybeans are planted on one-third of total U.S. row crop acreage. To maintain soybean production and prevent significant market disruptions to other U.S. crops, successfully combating soybean rust must be a priority for the U.S. Government. This extends to making sure that yield losses due to soybean rust are covered under the Federal crop insurance program.

Soybean producers are significant customers of the crop insurance program, carrying 22% of the total crop insurance liability in 2004. Last year 77% of total U.S. soybean acres were insured, or 58 million, out of 75 million acres. Soybeans have traditionally been some of the best business in the crop insurance portfolio. Last year, soybean policies posted a loss ratio of .78 on nearly \$10 billion of liability.

However, while participation numbers for soybeans are impressive, there remain wide regional variations in the type of policies soybean farmers buy and their attitudes toward this program.

Here is an example. Soybean farmers, overall, are significant participants in the buy-up part of the program, with 89% of soybean policies as buy-up and only 11% as CAT, or catastrophic, coverage. This should signal that soybean producers across the country are well-positioned to manage soybean rust because they have adequate insurance coverage.

But, consider the different position a farmer from Iowa and a farmer from Arkansas is likely to find himself in if both suffer a 40% yield loss from soybean rust. In Iowa, the state with the most soybean acres, 94% of the acres in 2004 were covered with a buy-up policy, with the most farmers choosing coverage at 75%. In Arkansas, the Southern state with the most soybean acres, only 46% of the acres were covered with a buy-up policy. In fact, only about two-thirds of Arkansas growers bought crop insurance at all and, of those, more than half bought CAT policies. For those growers, a 40% yield loss would not even be covered.

These statistics are not anomalies. It is important for the Subcommittee to recognize the ongoing problem with buy-up participation among Southern growers. In the nine Southeastern states where soybean rust was confirmed last year, 34% of soybean growers bought CAT policies, compared to 11% soybean CAT policies nationwide.

We don't know yet what type of policies farmers bought for 2005 crops. We do know that the consensus among many growers in Southern states is that crop insurance isn't worth the cost. Others have decided that investing in improving their land (with irrigation, for example) is a better risk management tool. This is an issue that has perplexed Congress as well as the American Soybean Association for many years. If Southern growers are under-insured when they face a rust outbreak, the problem with low buy-up participation in the South may turn out to be a deciding factor in whether farmers continue to grow soybeans there at all.

Soybean farmers have real concerns that despite our best efforts to protect ourselves through the crop insurance program, our losses will not be adequately covered, and disaster assistance will be necessary. The criteria for paying indemnities due to soybean rust seem terribly subjective to farmers: There is no certainty with this disease as to when to spray, when it's too late to spray, what product to spray, how many times to spray, and the list goes on. In short, the possibility that a farmer will buy crop insurance and still not have his claim paid seems very real.

The American Soybean Association strongly believes that losses due to soybean rust should and must be covered through the crop insurance program. The policy clearly states that soybean rust, as a disease, is an insurable peril.

Much of the concern farmers are raising is due to the mixed messages and generally negative impression about crop insurance they are receiving from other growers, their crop insurance agents, and even the Risk Management Agency. The phrase “good farming practice” has now become part of the agricultural lexicon, where just a few months ago it was an obscure phrase buried in the fine print of the crop insurance contract. What does it mean? Am I already doing it? If not, how can I meet it? All farmers want to understand what a good farming practice is when it comes to soybean rust, and the impression they are getting is that it may simply be an excuse for not paying their loss.

ASA recommends that a simple message regarding crop insurance and soybean rust be adopted by USDA: Soybean rust losses will be covered.

If a footnote is needed, it should be that, of course, fraudulent claims will not be paid. But since RMA has a number of tools available to root out fraud, this safeguard already exists. Some of these tools are:

- A toll-free hot line to USDA's Office of Inspector General
- Reconciliation of records (data mining) with the Farm Service Agency (FSA)
- Assistance from FSA for fraud monitoring, including spot-checking
- A compliance staff within RMA and each of the reinsured companies
- Fines for noncompliance and fraud.

At last week's joint Subcommittee hearing on soybean rust, numerous questions about the ability of the crop insurance program to manage soybean rust were raised. Every grower who buys crop insurance seems to have a question particular to his or her farm. An abbreviated catalog of these very thoughtful and technical questions is attached.

But rather than raise these questions one by one with the Risk Management Agency – and come to the same conclusion each time that an individual loss adjuster is going to have to make a judgment call about each claim – we maintain that there is one correct answer to every question: Your loss is covered under your insurance policy.

This position will preempt the need for RMA to publish more and more information, which has now begun to create more confusion than clarity. The Agency should not be forced to have to approve every ag retailer or aerial applicator as a “Local Agricultural Expert.” Crop insurance agents should not have to make contact with their insureds every time a new bulletin comes out. The crop insurance sales season is over. Most farmers have decided that crop insurance is their best risk management tool against soybean rust. USDA must say to them, “You made the right decision. Your risk is covered under your crop insurance policy.”

Finally, if crop insurance fails to help farmers manage their risk as they believed it would when they bought it, Congress understands exactly what will happen. It is not the decision of the American Soybean Association or any farm group on whether to request assistance for crop losses: this demand comes from the grassroots. Our expectation is that soybean farmers who are not indemnified by their crop insurance policy will ask Congress for help.

Again, especially for those growers from Southern states who have historically concluded that crop insurance does not, for either agronomic or economic reasons, “work” for them, their decision to under-insure or self-insure may drive demand for disaster assistance. We hope that Congress and RMA will move to address this perennial problem. It continues to undermine the crop insurance program.

The American Soybean Association thanks the Subcommittee for allowing us to share what we see as opportunities and concerns for federal crop insurance as we head into our first year of soybean production with an undetermined but certainly dangerous threat. We appreciate your interest in our industry and look forward to a successful growing season.

SPECIFIC GROWER QUESTIONS ABOUT SOYBEAN RUST

Under what conditions would RMA not cover a loss for soybean rust?

For farmers who rely on custom spraying, if we have made arrangements by prepaying for the fungicide and spraying, what happens if the applicator does not get the spraying done in a timely fashion to control soybean rust?

What happens if the retailer under-estimates the potential damage and fast-spreading nature of soybean rust and, even though they have told the customer that they will be prepared, the supplier does not have enough product. If the fungicide is paid for, is that enough on the farmer's part?

When is it too late to spray for rust? If the severity is high, perhaps 75%, does the farmer still have to spray? Some information suggests that even the best fungicides will not be effective under severe infection, only causing defoliation. Generally the farmer is instructed to spray if he can save even a few bushels of his crop. What if he sprays and it just causes defoliation?

Rust is different than other diseases because it may require more than one fungicide application. What happens if I make a timely application with the right chemical on the first spray, but don't do it right (weather conditions, wrong product choice, etc.) for the second application?

It's my understanding that losses due to disease for other crops, like wheat scab, have always been paid whether the producer sprayed or not. Why is there the potential for soybeans to be treated differently?

Even if it's too late to save my crop, will I have to spray to prove to the loss adjuster that I tried?

Statement by Ray Grabanski, President, Progressive Ag, Fargo, ND

Chairman Moran, Ranking Member Etheridge, members of the subcommittee, my name is Ray Grabanski, President of Progressive Ag, a Farm Risk Management Firm in Fargo, ND that provides both crop insurance (currently mostly in 4 states) and market consulting (nationwide) to producers. I might add Progressive Ag is also the top rated marketing firm in the US 3 years running by AgMas, the USDA sponsored program that rates national marketing services at Ohio State and the Univ. of Illinois.

I come from a different background than many of the agents or agent groups who have previously testified against PRP. I am in favor of RMA going forward with PRP, not because it is good for me as an agent, or for the industry, or for regulators - but because I believe it will be good for the most important group this program is designed to serve, the American farmer. In fact, my hope is that more companies will offer PRP programs, with varying levels of price discounts depending on what additional services are offered above the service standards set by RMA. I expect full rate companies will continue to expand their services such that market segmentation will occur, with customers choosing the level/type of service and the price they like the most. This should lead to more satisfied customers rather than the current one-price-fits-all program.

I grew up on a farm in Inkster, North Dakota, a small farm town of 120 people in northwest Grand Forks County. My heart is in farming and Agriculture, and what is good for agriculture and farmers is in my mind the most important consideration for the crop insurance program. The second most important group in this consideration should not be agents, or the industry, or regulators - but the American taxpayer. What is good for farmers, and what is good for the US taxpayer?

Since 1980, huge changes in the landscape of production agriculture has taken place all over the US. In my hometown area, those farm managers that understand risk management are growing, and those who don't are failing. Farmers who in 1980 were bedrock solid financially, but who didn't understand risk management, are out of business today. Farmers who were weak financially, but who understood risk management, are growing and competing successfully today in the marketplace.

Progressive Ag started in 1992 when I left my job as a state Farm Management Specialist with the North Dakota State University Extension Service to start a risk management firm. I could see that as farms got larger and larger (with little increase in working capital) risk management would be the most important item determining success or failure. I began offering crop insurance and marketing, but it was clear that marketing was the greatest need of farmers not already provided by the marketplace. There was an insurance agent on every street corner offering the same product for the same price, and doing the work in the same manner all across the US. But farm marketing risk management was a rarity, indeed.

Congress and policymakers in my opinion have shown great foresight in putting emphasis on helping farmers deal with risk management. Farmers basically roll the dice every year on two items in grain production - price and yield. They are betting their families wealth and livelihood every year on this dice shake, with the average bet for commercial farmers of \$200,000 on up for the big 3 crops (wheat, soybeans, corn). Farmers hope that each season, they get back their expenses put into the ground to raise the crop by the combination of a good 'dice shake' on both yield and price. A "Snake eyes" dice shake on both yield and price in any year can devastate a farm family without a good risk management program in place.

In 1996, after a few years experience with the Options Pilot Program (a price risk management program), policymakers moved forward with price risk management via revenue programs in crop insurance. First came CRC, then RA and IP, and now we have GRIP revenue products which include price risk management as well as yield risk management. This occurred at the same time as "Freedom to Farm" became a popular policy program, with the new farm program offering popular 'decoupling' features in farm programs. At the time I

couldn't help but think that some very wise government official or officials was showing great foresight in providing price risk management tools to farmers once Freedom to Farm was introduced. When Freedom to Farm replaced our "price stabilization" policy, farmers now were put at much greater price risk without the deficiency payment safety net in place.

From my vantage point as a commodity broker and market advisor, the federal subsidies for crop insurance price protection was not good for me or my marketing industry. You see, government policy now subsidized a substitute for put and call options. Yet, how could we lobby against something greatly needed by farmers and agriculture? In my mind, my whole reason for being in business was to help farmers deal with risk management, and this was a program that was very helpful in doing that. How could I be against what was good for my customers? Rather than lobby for the status quo and against change or progress, we instead opted to change my business focus to adapt to the progress being made by the Ag industry and policymakers. Our business focus was now helping farmers cope with the new programs being introduced rather than to fight against progress and change.

Over the next few years, I spent a lot of time training insurance agents, ag lenders, and farmers in how to adapt risk management plans to the new revenue insurance products. In 2000 via the Ag Risk Protection Act, policymakers added permanent government subsidies for the new price insurance components and my marketing business was permanently changed. We now had to properly advise farmers on how to work with the new price risk management components, making their crop insurance and marketing program work together in a total risk management program. It no longer made sense to buy put or call options and pay 100% of the cost of these price risk management components when a federal program was available to do it better, and the subsidy meant that only 40-60% of the cost was paid by farmers.

We made a permanent commitment to change our business focus to making crop insurance and marketing work together. Note we didn't just try to maintain the status quo, but to work with the logical changes policymakers were doing rather than fight against progress.

I find it ironic that today in America, groups are lobbying against price competition and deregulation in crop insurance. Over 10 years after communism and government control of peoples lives clearly failed in the Soviet Union. Many years after the highly successful deregulation of many US industries (such as phone service, airlines and many others) that greatly benefited all consumers. Today I pay 6c/minute for long distance in ND vs. 40c just a few years ago! A technological revolution has occurred in many industries in the past 10 years, with the internet world drastically changing many financial industries including commodity and stock brokerage. Today Progressive Ag has 4 rates for commodity trading ranging from \$20/round turn transaction to \$80/RT depending on the level of service desired and customer involvement. My trading rate for stock trades has dropped from \$150/transaction with Wells Fargo to \$15/transaction with Ameritrade. And I get better service from Ameritrade than from my local Wells Fargo outlet!

I think its almost silly to even debate the merits of deregulation anymore. Remember the questions about whether phone service prices would go up for rural areas with deregulation? Or if customers were sophisticated enough to do their own stock trading? So far the experience to date in so many industries is the less regulation, the more benefit consumers get from the changes taking place. Just think if we legislated or regulated what stock brokers had to offer customers? What would the 'Status Quo', \$150/round turn brokers have wanted in the regulations? And what could that have cost consumers in the long run if it was implemented?

The benefits of price competition and free markets are well known in the entire world, yet today lobbying groups of the crop insurance industry are fighting against deregulation of their industry. The introduction of price competition has caused an uproar from the "Status Quo" group, those who have an interest in preventing change and progress.

I applaud the RMA for their progress to date in deregulating the crop insurance industry. I specifically want to thank Keith Collins and Ross Davidson for their foresight on these

issues, and also the many other individuals at RMA who understand the benefits of free markets and deregulation, as well as the need for farmers to manage price risk.

Today history once again repeats itself, as we are once again playing out the roles between "Status Quo" and "Progress" as we consider deregulation and free market benefits, including price competition. We all know that free markets and price competition will bring great benefits to farmers, taxpayers, and eventually companies and professionals serving in the crop insurance industry who adapt to change. Progress will be made one way or another. We just have to be smart enough to not place too many obstacles to progress.

Listen to the comments today of the "Status Quo" people against deregulation/free markets and those in favor of progress and free markets. Doesn't it seem a little interesting that the most vocal group against price competition and deregulation are those who benefit the most from keeping it out, the "Status Quo" group? How come we haven't heard from any farmers or taxpayers who are against PRP after 3 years of offering it? It seems to me the greatest consideration is not what's good for insurance agents, insurance companies, or regulators - especially those who benefit from the "Status Quo". In my business, what we've decided really matters is what's good for the customer! In government, usually the most important consideration is what's good for the consumer and taxpayer. I doubt anyone can make a strong argument that heavy-handed regulation and not allowing price competition is good for the farmer, consumer, or taxpayer.

I am an insurance agent, and I doubt that price competition will be financially good for me personally. But can my selfish interests outweigh the great and well documented benefits of price competition and deregulation? It would have been wrong for the marketing industry to lobby against federal subsidies of price protection via revenue insurance. And it is wrong for the insurance industry to lobby against PRP.

I challenge you to contemplate a few issues. At Progressive Ag we figure crop insurance marketing costs are about 50% of the cost of delivering crop insurance, with 50% of the cost providing the service. In our marketing firm, we figure 20% of our costs are marketing, and 80% of our costs providing service. Have our crop insurance marketing costs rose up to meet the fixed level of revenue provided? With legal price competition, will marketing costs for selling crop insurance drop? Today, you would be surprised at the number of agents (and who they are) who offer illegal price competition (rebating). You would also be surprised at the number of 'extras' being provided by many agents in crop insurance. Many agents have been the bookkeepers, FSA reporters, financial managers, GPS field measurement and mapping providers, and business managers of the farms they serve. The best agents provide much more than insurance service to customers. Since the price of the insurance is the same for all customers, is the level of service rising up to meet the fixed price revenue of the product? Since that is the only legal competition involved, is it any wonder that the service level keeps rising?

When we introduce price competition to crop insurance, I think everyone might be surprised at how little the business really changes. "Status Quo" agents and companies might be surprised how little change will occur for those agents who are already providing exceptional service to their customers. Would a farmer replace their best financial manager for a 10% price discount? For many of the best "Status Quo" agents, very little change might occur as producers might be willing to pay 10% more for the extra services provided by the best agents. After 3 years of price competition, so far I think it's surprising how few farmers have purchased the PDP discount even with some of the heavy handed marketing against PDP.

I have no doubt that price competition and deregulation will be good for farmers and consumers. In time, I believe it will also be good for insurance agents and companies who learn to adapt to the changes being introduced. The only ones who will be adversely affected are those who can only deal with the status quo, and don't adapt to the changes the world is undergoing. But is that any reason to reject progress? If status quo was good, we'd all still be farming with horses! America wasn't made great by maintaining the status quo. In fact, unhappiness with the status quo is what all Americans had in common 200 years ago. That's why our ancestors immigrated to America! Have we changed that much in just 200 years?

Finally, I have 2 requests for RMA and the subcommittee to make PRP better for all companies and their customers:

- 1) There is a need to clarify a "Standard of Service" for SRA holders under PRP rather than "Uniform Service" as it is worded on page 9007, item c of the Federal Register, Vol 70, No. 36. I think RMA's intention is to have service equal to the standards set by RMA in the SRA, not "uniform service" among all providers, including those offering PRP. For example, all shoes sold in the US are not uniform, but in various colors, shapes, sizes, styles, etc, and customers prefer it that way. Likewise, some insurance providers offer GPS mapping services, FSA reporting services, bookkeeping services (and many more too numerous to mention) as a marketing 'extra' with the insurance. All companies shouldn't be required to offer uniform service, like a one-size-fits-all program. Instead, as RMA states in the proposed rules, all providers must provide a service at or above the standards set by RMA in the SRA. Innovation will be stifled if you dictate what choices of services are offered to customers, or prohibiting offering anything more than the standards. Establish a "Standard of Service" that all SRA holders must comply with, and let the customers decide what additional services are demanded in the marketplace, and what price customers are willing to pay for services above the standard. What we might find is customers preferences range in a spectrum from high service (with many extras) all the way down to bare bones service at the best price. But the final product will be identical, as required by RMA. Choices should be as varied as customers tastes and preferences - as it is in almost all other markets. This will bring the greatest utility to all the market participants, and thus the greatest economic benefit to all customers.
- 2) There is a need to provide for punishment of agents or companies who slander any other SRA holder, especially those who meet the requirements of the PRP program. It has been very unfortunate that State Regulators to date have not taken a much more aggressive stance in preventing this kind of marketing abuse the past 3 years. The lone PRP provider, Cropl, has had terrible slander spread about the company throughout many areas. Some of the things we constantly hear from prospective customers is that "Cropl is going broke..", or "Cropl has no adjusters..", or "Cropl won't be able to pay their claims..". Clearly RMA has rigorously reviewed Cropl's SRA and ability to pay and support all their crop insurance business. Yet constant repeating of this mis-information (sometimes at the urging of otherwise credible crop insurance groups/organizations) has been devastating to the credibility of Cropl, RMA, and the entire crop insurance program. Other misinformation spread by competitors includes comments like "You have to be your own agent..", or "You are responsible for entering your acreage and production information into the internet, and setting up your own policy by computer since you have no agent..". Clearly this is not true, and unfortunately this misinformation has prevented many growers from receiving the benefits of an informed choice. This should not be tolerated in any insurance product, especially one subsidized and guaranteed by the federal government. This method of 'marketing' simply must not be tolerated. I would suggest severe penalties be set up for any organization or business that uses these types of slanderous marketing activities. Some possible penalties might include permanent revocation of the person or companies ability to write MPCI crop insurance. If an organization is responsible, they should suffer fines, cease and desist orders, and if possible, permanently revoke their right to represent any crop insurance entity or organization. This is probably the most important issue to protect the integrity of the crop insurance program. Price competition is not confusing to US growers who constantly make decisions on various products at various prices. What confuses growers is the misinformation that is being provided by those opposed to PRP programs. Slander and misinformation cannot be tolerated as we progress more toward a free, competitive market for crop insurance. This is an important role for regulators to serve as we move forward with price competition.

To conclude, I am in favor of the PRP program going forward, and applaud RMA for the proposed rules to date. I also strongly urge RMA to think about these other issues that

will likely arise at some point as they deregulate and open crop insurance to price competition.

If there are any questions by the committee, I would be happy to try to answer them.

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