CROP INSURANCE

Opportunities Exist to Reduce the Costs of Administering the Program

Why GAO Did This Study

The U.S. Department of Agriculture (USDA) administers the federal crop insurance program with private insurance companies, which, in turn, work with insurance agencies that sell crop insurance. In 2008, according to USDA, the program cost $6.5 billion, including about $2.0 billion in allowances to insurance companies to cover their administrative and operating (A&O) expenses, such as salaries and sales commissions to agencies. GAO was asked to examine (1) the reasons for recent substantial increases in A&O allowances, and the purposes for which insurance companies use these allowances, and (2) insurance agencies' expenses for selling federal crop insurance policies, and questionable practices, if any, that agencies use to compete for business among farmers. GAO analyzed USDA and private insurers' data, among other things.

What GAO Recommends

GAO recommends that USDA implement a methodology so that the A&O allowance more closely aligns with expenses, as it did before crop prices rose in 2006; require companies to annually report commissions to insurance agencies, by policy; and study costs of delivering crop insurance policies to establish a standard method for assessing agencies' reasonable costs. RMA agreed with two of our three recommendations, arguing that collecting commission data by policy may not be valuable. GAO believes that such data would better enable RMA to negotiate the A&O allowance it pays companies.

To view the full product, including the scope and methodology, click on GAO-09-445. For more information, contact Lisa Shames at (202) 512-2649 or shamesl@gao.gov or Susan Offutt at (202) 512-3763 or offutts@gao.gov.
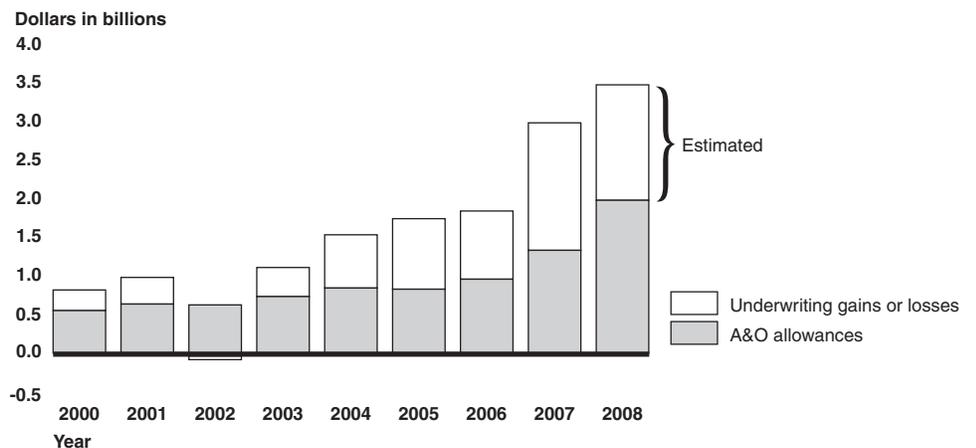
What GAO Found

Between 2000 and 2009, companies' A&O allowances nearly tripled, primarily because USDA's calculation method for A&O allowances considers the value of the crop, rather than the crop insurance industry's actual expenses for selling and servicing policies, which generally remained stable. This increase in the A&O allowances occurred without a proportional increase in the number of policies, acres, or amount of insurance coverage purchased. The higher A&O allowances occurred because of higher crop prices since 2006. Per policy, the allowance rose from a national average of $836 in 2006 to an expected $1,417 in 2009. Companies have used most of the higher allowances to raise commissions, in an effort to compete for insurance agencies' portfolios of crop insurance policies. USDA data show that commissions increased more sharply in states with historically larger insurance underwriting gains, which add to company profits. For example, the average commission paid per policy in 5 Corn Belt states increased by 86 percent from 2006 to 2007, and by 43 percent in the other 45 states. Companies reported to USDA that their expenses to administer the program in 2007 exceeded their allowances. However, GAO determined that these expenses exceeded allowances largely because of the higher commissions paid to insurance agencies.

A&O Allowances and Underwriting Gains or Losses Paid to Companies, 2000 through 2008

Source: USDA.

According to GAO's analysis, crop insurance agencies' sales commissions have outpaced their expenses for selling policies. Commissions per policy increased by an average of about 16 percent per year from 2000 to 2009, compared with an increase of about 3 percent per year for insurance agents' wages, which are the largest factor in agencies' expenses. For 2007 through 2009, commissions will exceed wage-adjusted commissions by $2.87 billion. According to USDA officials, higher commissions can create more incentive for rebating, which is the practice of offering something of monetary value to farmers to attract their business. USDA prohibits this practice, as do most states. USDA and state insurance regulators are working to reduce the potential for this practice.

_____ **United States Government Accountability Office**