

**Crop Insurance Industry Testimony**  
**By**  
**Ron Brichler**  
**To**  
**General Farm Commodities and Risk Management Subcommittee**  
**House Committee on Agriculture**  
**1300 Longworth House Office Building**  
**Thursday, June 7, 2007**

**RE: To review the integrity and efficacy of the Federal Crop Insurance Program**

Good morning Chairman Etheridge, Ranking Member Moran and Members of the General Farm Commodities and Risk Management Subcommittee of the House Committee on Agriculture. My name is Ron Brichler. I am a Senior Vice President of Great American Insurance Company, and President of its Crop Insurance Division. I also have operational reporting responsibility for five other Great American divisions. Great American Insurance Company, headquartered in Cincinnati, Ohio, is a subsidiary of American Financial Insurance Group, Inc (AFG). AFG is a publicly owned company with its stock traded on the New York Stock Exchange.

Great American's Property and Casualty Insurance Group is ranked by A.M. Best as the thirty-third largest property and casualty operation in the United States. Great American is engaged in marketing and servicing a wide array of specialty property and casualty insurance products, of which crop insurance represents about 15 percent of our gross written premium. The Crop Division competes internally for capital with over twenty other Great American operating divisions.

My testimony today is presented on behalf of the crop insurance industry – not any one organization or group. I certainly appreciate the support of everyone in the industry who directly or indirectly contributed to the development of this testimony.

While the crop insurance industry is pleased to have this opportunity to appear before this Subcommittee today, we certainly regret the circumstances that made this hearing necessary by presenting a distorted and misleading view of the crop insurance program. We believe recent oversight hearings by this Subcommittee, including two in May of this year and several in the 109<sup>th</sup> Congress, had completed a thorough and current review of the crop insurance program. Furthermore, we believe USDA's testimony in the May 3, 2007, House Oversight and Government Reform Committee certified the program's integrity and efficacy. Thus, as disappointed as we are about the occurrence that precipitated the need for this hearing, the crop insurance industry is very pleased to have the opportunity to respond and help set the record straight about the integrity and efficacy of the modern, highly successful and well-managed federal crop insurance program.

## **This Year's Erratic Weather Demonstrates the Need for Crop Insurance**

We think the erratic weather patterns we have thus far experienced in 2007 are a grim reminder of why a good crop insurance program is so important not only to farmers, but to consumers that they provide with a low-cost supply of food, fiber and energy. Already we have experienced two major freeze disasters in 2007 – the January freeze on the West Coast and the April freeze that caused extensive damage in several areas from the Southeast to the High Plains. Currently, Florida, Georgia and surrounding states are suffering from a severe drought that is preventing planting, while other parts of the country are being hampered by excessive moisture.

While it is too early in the year to guess the extent of this year's losses in agriculture, these events are a reminder that farming is a very risky business, and the business of insuring the risks of farming is high risk insurance. While we have been fortunate to have low loss ratios in the past few years, one catastrophic loss year could wipe out the underwriting gains the crop insurance industry has received in those good years.

## **Crop Insurance Plays a Key Role in Energy Independence**

Moreover, the farm sector is under more pressure to produce at full capacity than ever before. No longer are we worried about surplus production. Now that agriculture is expected to produce not only an ample food supply but the feedstock for bio-fuels, every available acre is needed for production. President Bush has set a goal of 35 billion gallons of alternative fuels in 10 years. There is a consensus among ethanol executives that we can never produce enough corn to provide more than 14-15 billion gallons of ethanol from corn in a year. Therefore, additional production must come from cellulosic feedstock such as switch grass. Farmers are never going to grow these new crops in abundance if they can't mitigate their risks by buying a good crop insurance policy. Crop insurance forms the foundation that supports their decisions to grow and harvest the raw materials that ultimately will help create energy independence.

## **The State of the Crop Insurance Program is Excellent**

We, the private sector partners in the crop insurance program, are here today to declare the federal crop insurance program's integrity and efficacy to be in excellent shape. In support of our declaration, I offer up the words of the Risk Management Agency Administrator Eldon Gould from the May 3, 2007, House Oversight Committee hearing in which he said, "The federal crop insurance program is working as it was intended and it is performing well ..."

We believe it is significant that these are the words chosen by the federal regulator of the crop insurance program in commenting on its integrity and efficacy. After all, RMA employees are the people who have the depth of experience with the program, breath of knowledge about the program and a comprehensive understanding of the program, especially including its history, purpose, challenge and opportunity, to render an accurate and intelligent judgment on the program's integrity and efficacy.

Additionally, I am very pleased to refer you to a May 23, 2007, National Crop Insurance Services press release, which contains the following information:

The leadership of the Risk Management Agency (RMA) and the crop insurance industry met in Kansas City this week in an effort to strengthen their oversight of the Federal Crop Insurance Program. One of the most telling things they heard came from Dr. Bert Little of the Center for Agribusiness Excellence (CAE).

**“About 0.2 percent, or less than one percent, of the policies in the crop insurance industry shows up as anomalies in our data mining,” Dr. Little told the group. “That’s one heck of a lot better than property and casualty where 10-12 percent of the claims are fraudulent.”**

CAE conducts the data mining of the crop insurance industry on behalf of the RMA.

### **House Oversight and Government Reform Committee Hearing Statements**

To more fully understand and appreciate the need for today’s hearing, I want to recall for the Subcommittee several statements from the record of the House Oversight and Government Reform Committee Hearing in question. They are as follows:

“This hearing examines allegations of waste, fraud, and abuse in two key areas of the federal crop insurance program:

The first is that the program has failed at its primary purpose: preventing the need for annual disaster payment to farmers.

A second focus of allegations of taxpayer waste and abuse in the crop insurance program are the large underwriting gains and commissions garnered by the private crop insurers, and the resulting inefficiency of the program.

The taxpayers understand that it costs money to run the government. But they can’t accept rampant waste, fraud, and abuse that squanders their money on boondoggle programs.

Our committee will learn today that the federal crop insurance program is costing taxpayers billions of dollars in waste, fraud, and abuse.

From the taxpayer perspective, it’s hard to imagine a more costly and inefficient way of providing a safety net for farmers.

The federal crop insurance program has become a textbook example of waste, fraud, and abuse in federal spending.

Over the last six years, over \$8 billion in taxpayer funds have been squandered in excess payments to insurers and other middlemen. Somehow, about forty cents of every dollar that taxpayers have put into the crop insurance program has gone up in smoke.

GAO has found that the private crop insurance companies are obtaining underwriting profits that are almost three times as high as industry averages.

Nobody begrudges assistance to a farmer whose crop is destroyed in a natural disaster. But no one should tolerate insurance companies that skim billions from the Treasury to fatten their profits.”

### **House Oversight Committee Statements Illogical, Inaccurate, Unfair**

First, Mr. Chairman and Members of the Subcommittee, the crop insurance industry wants to clearly and definitely assert that the program is highly successful and, therefore, has not “failed at its primary purpose.” The program is a risk management tool. Any statement claiming the program has failed because Congress and the President have approved *ad hoc* disaster assistance laws is totally illogical. No program or law can deny a congress and a president their constitutional rights and privileges. No congress can bind a future congress. New *ad hoc* disaster assistance laws have been and will continue to be approved for any reason when there is the political will to do so. Let me repeat – political will to do so is all that is required. Nothing else matters. Furthermore, the word “need” is a “value” term – meaning it has no fixed or universally accepted definition. Therefore, the existence of *ad hoc* disaster assistance laws is an illogical and meaningless test of the success or failure of the federal crop insurance program.

Secondly, Mr. Chairman and Members of the Subcommittee, the crop insurance industry wants to clearly and definitely assert that the program is not riddled by “rampant waste, fraud and abuse.” It does not “squander money on boondoggle” programs. It is not inefficient. It is not a “textbook example of waste, fraud and abuse.” It does not make “excess payments to insurers and other middlemen.” Forty cents of every dollar put into the program has certainly not “gone up in smoke.” Insurance companies certainly are not “obtaining underwriting profits that are almost three times as high as industry averages.” Insurance companies do not “skim” money from the program.

Mr. Chairman, as you and Members of the Subcommittee know, all monies paid to insurance companies are controlled by the Standard Reinsurance Agreement (SRA), which has been written by the government, managed by the government and enforced by the government. Interested companies are required to sign the SRA in order to become an Approved Insurance Provider (AIP). Companies can lose their AIP status by not complying with the terms and conditions of the SRA.

A key question for this hearing to examine is this: If underwriting gains are three times industry averages and there are golden opportunities for receiving other excess payments, why are there so few AIPs? Why have large national insurance companies left the program? The industry’s answer is clear and definite – the statement is simply inaccurate and unfair.

In fact, Mr. Chairman, **when comparing crop insurance returns to those for property and casualty insurance generally and taking care to use comparable data for the exact same years – 2002 to 2006 – the results are almost identical.** In their presentation, GAO appears to have used the 5 year time period 2001 to 2005 for the P&C analysis because data for 2006 was not yet available. However,

for their crop insurance analysis, GAO appears to have used the 5 year time period 2002 to 2006. Keep in mind that the P&C insurance industry underperformed other industries in these years, especially because of negative returns in 2001 due to the events of September 11 and 2004 and 2005 as a result of all of the hurricanes. However, just because the total P&C industry underperformed in a particular time period, that does not mean crop insurance will also under perform in that time period. Of course, the P&C industry had a record profit year in 2006. **Adding 2006, a big profit year, and dropping 2001, the year of 9-11 and a big loss year, significantly changes the data for comparison purposes.**

Equally important, **it does not appear that GAO made the necessary effort to use comparable premium data either.** As my testimony will show later, **the raw premium data for the two lines of insurance do not have the same base.** P&C insurance premiums are expense loaded. Crop insurance premiums are not expense loaded. When a percentage analysis is conducted using two difference bases, the results will, of course, be drastically different. Thus, when you update the GAO work to use the exact same five year period – 2002 to 2006 – for both lines of insurance and make the necessary adjustment in premiums to have a consistent base for the percentage analysis, the P&C return is 17.4 percent. Now we are left with the opportunity to compare the differences between 17.4 percent on the one hand to 17.8 percent on the other. Our data source is Best Aggregates and Averages: Property Casualty and A.M. Best Special Report: US Property/Casualty, 2006 12-Month Financial Review.

One other important point about the GAO work is that it used crop insurance underwriting gain as reported by RMA to measure the industry's profitability. **As my testimony discusses later, the RMA reported underwriting gain cannot be equated to profit since they do not reflect all of the industry's delivery cost.**

No doubt, Mr. Chairman, the crop insurance program is complex. The level of complexity together with highly variable but at best only average returns may explain why there are no more companies in the business. However, the program has grown in complexity because complexity is a requirement for better satisfying the congressional goal of providing a personalized risk management tool to all of the nation's farmers, ranchers and growers regardless of their size, location or risk profile. Complexity contributes greatly to the work load and compliance challenges for companies and agents in selling and servicing the federal crop insurance program. Moreover, this level of complexity requires the investment of millions of dollars annually by the private sector in technology. The complexity factor and other distinguishing characteristics must be taken into proper consideration in any comparison of the crop insurance program and related income statements to other property and casualty lines of insurance.

### **Crop Insurance: Comparison to Property and Casualty Profitability**

Crop insurance companies write a particular class of property and casualty insurance. Because of this fact, the business of crop insurance is frequently compared to the business of other property and casualty (P&C) lines of insurance. This comparison is reasonable as long as the major differences are recognized and understood. Significant differences exist in profitability opportunities between private lines of P&C insurance and federal crop insurance.

### Differences between P&C Insurance and Federal Crop Insurance

	P&C Insurance	Federal Crop Insurance
Premium	Expense loaded – meaning administrative costs are included in the premium charged.	Not expense loaded.
Premium Rates	Set by company, approved by State regulators. Rates will differ by company due to risk and administrative loads.	Set by RMA – the same rates apply to all companies.
Premium payment	Upfront at time of sale. Held by company to generate investment income.	At harvest with companies turning over to RMA within 30 days. No investment income. Credit risk to company of nonpayment by policyholders.
Underwriting	Some ability to not write risks via underwriting rules.	No ability to not write risks. Must take all eligible regardless of risk profile.
Reinsurance	Private	Mixture of private and federal.
Administrative Expenses	Set by company and approved by State regulators as part of the Premium	Set by statute and RMA – may or may not cover actual expenses

What do these differences mean in practical business terms?

- 1) Because expenses are “loaded” into premiums for private lines of P&C insurance, a direct comparison of “premium” between the P&C insurance and crop insurance is **NOT POSSIBLE** without adjustments to premium. A better comparison of the two lines of insurance is overall profitability.
- 2) Companies that write crop insurance do not set the rates. The RMA does. This fact means that crop insurance companies have no ability to adjust rates (higher or lower) regardless of the associated risk.
- 3) Farmers pay their premium at harvest and crop insurance companies remit the paid premium to RMA within 30 days. **THIS FACT IS A SIGNIFICANT BUSINESS DIFFERENCE.** Private P&C companies collect premium upfront and invest those premium dollars. Premium dollar investments are the major source of income for P&C companies, not underwriting gains. In fact many private P&C insurance companies use investment income to lower premium rates to customers. The opposite is true for crop insurance companies. Underwriting gains are the major source of income because there is no opportunity for investment income from premium dollars. In addition, there is a credit risk to crop insurance companies because they are required to pay the premium to RMA whether the amount is collected from policyholders or not. Annually, several million dollars in premium receivables are written off by crop insurance companies as a result of nonpayment by policyholders.

- 4) Crop insurance companies must write all federal crop insurance lines in a State if they decide to operate in that State. Crop insurance companies are not allowed to turn down customers or adjust rates based on normal insurance underwriting rules. This fact means crop insurance companies take risks that they otherwise would not take.
- 5) Because crop insurance companies are unable to underwrite policies, a key component of the crop insurance program is federal reinsurance. Federal reinsurance is used to cover losses on policies that are of “high” risk and would not otherwise be written. Normally, in these situations, if allowed, company rates for policies providing coverage in certain agriculture production enterprises would be raised to levels higher than the RMA established rates.
- 6) Private P&C insurance companies can make adjustments in administrative charges through annual rate adjustments. Crop insurance companies are “reimbursed” for expenses but they are not allowed to adjust administrative charges to farmers to reflect changing business environments.
- 7) For crop insurance, the underwriting gain numbers reported by the Risk Management Agency (RMA) are not company profits. RMA does not deduct all expenses before publishing the crop insurance underwriting gain numbers, which is a requirement to reference profits. All expenses have been deducted in computing underwriting gain numbers for other P&C lines of insurance. Thus, published underwriting gain data for crop insurance and other P&C lines of insurance are not directly comparable.

**Profitability analysis is the correct comparison.** Profitability or the rate of return on capital employed is the correct business statistic to use when making a comparison between the federal crop insurance line and other P&C lines of insurance. However, an analysis of this kind is data intensive and involves accumulating business sensitive data. To date, only three comprehensive studies have been conducted comparing profitability between the two lines of insurance. They are: Deloitte and Touch 2004, Price Waterhouse Coopers 1997 and updated in 1999 and Milliman and Roberts 2002, a study commissioned by RMA.

- 1) **The Deloitte and Touché study reported a 10 year profitability measure of 7.9 percent for the crop insurance program with a standard deviation of 12.9 percent while other lines of property and casualty insurance ran a 12.7 percent return with an 8.9 percent standard deviation (1992 – 2002).**
- 2) **The Price Waterhouse study concluded that the pre-tax rate of return on crop insurance was 11.7 percent over an 8 year period (1988 – 1995) and lower than that of the P&C industry at 14.1 percent over the same time period.**
- 3) **The Milliman report concluded the estimated earned return on equity to crop insurers averaged 15.8 percent over a 13 year period (1989 – 2001) versus an average reasonable rate of return over the same period of 14 percent. The Milliman report also said “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 percent.” Thus, if RMA had included the major drought year of 1988 in the base period, the crop insurance industry would have earned less than the target rate of return.**

**Conclusion on Comparison. Comparisons between P&C lines of insurance and crop insurance are possible based on profitability when all sources of income and expenses are taken into consideration.** A comparison based on underwriting performance only is specious because it does not take into consideration significant differences in the definition of “premium” and “underwriting gains” between federal crop insurance and other P&C lines of insurance. Moreover, it does not recognize a significant business distinction between the two types of companies. **P&C companies’ primary earnings are investment income, not underwriting gains. In fact, data from the Insurance Information Institute indicate that for the P&C insurance industry, underwriting activity for the years 2001-2006 experienced an average loss of almost \$10 billion annually, while investment income over the same time period averaged more than \$42 billion annually.**

**Crop insurance companies have no opportunity to invest premium dollars to earn income and, therefore, underwriting gains are their primary source of income.** Although, crop insurance companies are reimbursed an average of around 20 percent of premium for selling and servicing expenses, the amount does not fully cover total delivery costs. Moreover, even though the average expense reimbursement rate has been reduced by the government from an average of slightly more than 30 percent, proposals abound today, including again by the government, to reduce the rate further. **In comparison, the Insurance Information Institute data for the years 2001-2006 show that for the P&C industry the “expense-to-earned premium” ratio averaged around 40 percent. When adjusting the P&C industry premium data for being normally expense loaded, making the data comparable to crop insurance premium data, the “expense-to-premium” ratio for the same time period averaged more than 60 percent.**

### **Crop Insurance: Multiple Farmer Benefit Program**

Recent public statements have claimed that **40 percent or more of the crop insurance program benefits accrue to the private crop insurance industry.** This analysis is inaccurate on its face and misleading in the extreme. The analysis is based on “net indemnity” or “cost to the taxpayer,” which may be useful analysis for single-purpose federal transfer programs but **grossly understates the benefits of the multifunctional, multi-benefits federal crop insurance program.**

**Net indemnity analysis** (indemnities minus farmer paid premium) for the crop insurance program is an incomplete measurement of the benefits that accrue to farmers from owning these policies. **First, net indemnity analysis ignores the fact that delivery expenses (administrative and operating (A&O) reimbursements) are paid on behalf of farmers by the federal government** and therefore must be incorporated as a direct transfer of income benefit to farmers. **Second, the benefit of an insurance program is greater than indemnities.** No one buys an auto or homeowner’s policy hoping to collect an indemnity payment. Like farmers, they buy to insure against a disaster that they cannot afford to be at risk for. Like other policyholders, farmers purchase crop insurance for a multitude of reasons. That is to say, the federal crop insurance program is multifunctional, providing multiple benefits.

Moreover, if the rent-seeking behavior described by the economic literature is correct, then farmers would be expected to buy crop insurance coverage where the subsidy and, therefore, expected net indemnities are greatest – at the 55 percent coverage level. However, the average program coverage level is 70 percent, which is significantly higher than net indemnity analysis suggests is optimum. Other benefits are necessary to explain this difference in coverage level.

In addition, net indemnity analysis does not explain why many farmers buy revenue insurance instead of the APH yield-only plan of insurance. Revenue insurance costs farmers on average 30 percent more out-of-pocket, yet the loss ratio for revenue plans of insurance over the past 5 years is no better than the yield-only plans of insurance. Again, other benefits are necessary to explain this difference.

Thus, it is not only reasonable but also logical and sensible to conclude there are more calculations involved in farmers' decisions about buying crop insurance than simply the assumption of a net indemnity. There must be additional benefits that accrue to farmers for owning a federal crop insurance policy. A 2004 National Corn Growers Survey elicited the following 5 factors as top reasons farmers buy crop insurance: 1) cash flow protection 2) price of insurance 3) protection against weather 4) lender requirements and 5) risk management. Benefits beyond net indemnity are identified and summarized by the following three factors:

**Credit and the Banker Factor:** Nearly every farmer borrows money on an annual basis to operate their farm. Bankers and farmers have come to rely on crop insurance to help mitigate the risk of their production loans.

**Landlord Factor:** The president of the American Sesame Growers Association, Steve Chapman, recently testified before Congress that Sesame growers needed an insurance policy not because of the risk of growing sesame but because landlords demanded it.

**Forward Marketing Factor:** One of the primary reasons farmers buy revenue insurance is to use the insurance policy as security when they forward market a portion of their crop. Both RA and CRC allow farmers to forward market with less risk.

**Clearly, there are farmer benefits derived from owning federal crop insurance policies beyond the assumption of net indemnities.** Furthermore, it is also clear these benefits are not recognized and are not measured by the single-dimension analysis of "net indemnity" analysis and calculations. Until the economic literature addresses the full spectrum of benefits that accrue to farmers as a result of owning multifunctional federal crop insurance policies, program inefficiency claims should be significantly, if not totally, discounted.

A far more realistic analysis of the "benefit transfer efficiency" of the federal crop insurance program from farmers' total welfare standpoint may be to compare total federal crop insurance outlays to total federal crop insurance liability. This ratio calculates the level of farmer crop insurance protection benefit received for each dollar of federal crop insurance outlays. According to Federal Crop Insurance Corporation (FCIC) data, for years 2001 through 2005, outlays totaled about \$14.9 billion and liability totaled about \$205.5 billion, for a benefit-to-cost ratio of approximately 14 to 1. While the liability analysis aggressively assesses the program's benefit transfer value, it certainly is far more relevant than any analysis that concludes the crop insurance program benefit transfer ratio is less than 1 to 1.

## **Crop Insurance: Flexible, Affordable, Available, Predictable**

While crop insurance isn't new, it is more important than ever to thousands of farmers. The ability to tailor coverage to each individual operation, obtain coverage at a meaningful level and affordable price, secure the coverage from a local, trusted insurance professional, and know that the coverage is in place and the fact that it can be counted on for financial planning purposes all combine to make crop insurance the cornerstone of many farmers' financial and risk management plans. These benefits of crop insurance always have and will continue to account for the success and acceptance of the program.

**Tailored Coverage:** Farmers can tailor their coverage to fit the needs of their specific operation. They have a choice of coverage levels ranging from 50 percent up to 85 percent. Numerous coverage plans are available for a variety of crops, including MPCCI yield guarantee protection, revenue products providing yield loss and price protection, and area coverage programs which provide broad based, simple yield or revenue protection on a county basis. This variety of coverage and product levels provides growers the opportunity to obtain the coverage that fits their specific farming operation and risk management needs.

**Affordable Farmer Premiums:** Growers are able to purchase crop insurance at more affordable prices because the government shares in the risk and administrative premium costs. This cost sharing makes it possible for many growers to secure better coverage than they could afford without the government cost share. This results in affordable protection for growers, while also creating manageable costs for taxpayers.

Coverage Level	50%	55%	60%	65%	70%	75%	80%	85%
Premium Assistance	67%	64%	64%	59%	59%	55%	48%	38%

**Private Sector Delivery: Private sector delivery provides competitive, localized service for growers because they can buy from the local agent of their choice.** Private industry competition ensures prompt service on claims. Choice and competition help protect and stabilize the rural economy and small town businesses.

Furthermore, a study released in September, 1989, by **Arthur Andersen & Company concluded that USDA experienced delivery costs twice the amount of the private sector participants, on average. Specifically, the study reported that for 1987 total delivery cost by private sector companies equaled 43.17 percent of premium while for master marketers the total was 85.30 percent.** This finding and other factors supported a move by Congress to transition to sole delivery of the federal crop insurance program by private sector insurance companies and agents.

**Assures a Stable and Secure Food Supply •** Unlike disaster payments, crop insurance is predictable. Farmers and their lenders know what their protection is before they plant their crop. Crop insurance assures a stable and secure food supply — an important component of homeland security. From the taxpayers' standpoint, crop insurance is more economical than disaster payments because the growers pay a significant portion of the cost of crop insurance. The public cost share of the program is a manageable budget item for government, while disaster payments are normally an ad hoc item subject to funding availability.

The bottom line is that the crop insurance program is successfully meeting the needs of thousands of farmers who are relying on the protection that their local agent helped them tailor to meet their specific risk management needs. This protection represents a good value for America's taxpayers when compared to any other alternatives for addressing shortfalls in agriculture production.

### **Resist the Call to Use the Crop Insurance Program as a Piggy Bank to Fund Special Interests**

We realize the Committee is being subjected to extreme pressure to raid the funding of the crop insurance program to pay for the pet projects of one commodity group or another or for some new scheme of a farm organization. I hope you would resist these attempts. They are extremely shortsighted.

**These attempts would be a serious blow to a program that has taken a quarter of a century to build.** The budget baseline for crop insurance is growing because it is successful. More and more farmers are buying it to lock in not only their yield, but their price. As the prices of commodities have increased due to the demand for corn acreage for ethanol, the budget baseline for the price support programs of these commodities has declined.

However, the amount of risk in agriculture has also increased. While farmers no longer receive such a large share of their income from their government, their cost of production and, therefore, their risk has also increased dramatically. **Without a good crop insurance program farming will only be a viable occupation to those who are wealthy enough not to need to borrow money.**

### **Other Crop Insurance Program Reviews and Comments by Knowledgeable People**

Mr. Chairman and Members of the Subcommittee, you have heard what the industry has to say regarding the integrity and efficacy of the program. I thought you might like to know what has been said about the crop insurance program by individuals outside of the industry. Below are a few of these comments:

Daniel Pitts Winegarden, [former first deputy commissioner, Iowa Insurance Division], Des Moines Register, May 15, 2007:

“The federally subsidized private crop-insurance industry is a real success story in farm policy. Combining private expertise in risk management with incentives to manage risk is far more proactive and fairer than paying for disasters on an ad hoc basis.”

Steven Chapman, American Sesame Growers Assn., House Agriculture Committee, May 14<sup>th</sup>, 2007:

“The bottom-line is this: landlords and lenders demand crop insurance. Since crop insurance is unavailable to sesame, land and loans are given only to other crops.”

David Gillen, National Corn Growers Association, House Agriculture Committee, May 14, 2007:

“On behalf of NCGA, our 32,000 plus members from 48 states and more than 300,000 producers who contribute to corn check off programs, I cannot overemphasize the importance of an effective and affordable federal crop insurance program to our member growers’ risk management planning. Assuming commodity markets remain above current farm price support levels over the next several years, crop insurance becomes even more critical for protecting producers’ farm revenue against significant yield losses.”

Gary Iverson, Great Northern Cooperative Assn., House Ag. Committee, May 14<sup>th</sup>, 2007:

“Farmers have trouble getting bankers to support loans for their crops without crop insurance.”

Keith Collins, Chief Economist, USDA, House Agriculture Committee, May 1, 2007:

“The combined increases in A&O and underwriting gains have helped improve the financial performance of the companies since 2002, when the largest company became insolvent. The improved financial picture has also encouraged new entrants into the program.”

Eldon Gould, Risk Management Agency, House Agriculture Committee, June 15, 2006:

“RMA is continually seeking new and creative ways to work with the other regulatory bodies, government agencies and the companies, agents and producers to ensure the integrity of the Federal crop insurance program. RMA compliance reviews continue to reveal that there are only a small number of producers who have been involved in fraud or illicit activity. While no level of criminal or abusive behavior is acceptable, RMA continues to believe the number of persons involved in criminal activity is relatively small.

Because they share in risk, the approved insurance providers (AIPs) have a vested interest in working with us to prevent fraud, waste and abuse. We have worked closely with the AIPs to strengthen program integrity, protect taxpayer dollars, and better assure that those who deliberately break the rules are caught and punished.

The vast majority of people in the Federal crop insurance program-farmers, insurance agents, loss adjustors, industry professionals and government employees-are honest, hard-working men and women acting with the highest integrity and competence.”

## Conclusions

In conclusion, I would like to make three points:

First, the federal crop insurance program originated and has evolved with a keen sense of purpose in being of value and service to the nation's farmers, ranchers and growers in their risk management needs. In reaching to satisfy this public policy objective, the program has grown more complex. However, this characteristic, that of being complex, is the essential element for the program to be of value and service to the maximum number of the nation's agricultural producers. **Complexity, however, requires more resources – time and capital – to implement and manage, but it is the major factor accounting for the level of success the program enjoys among producers today.** While very successful, the program can continue evolving and improving. In striving to enhance its value and service to current policyholders and attracting even more policyholders, the program must continue to enjoy the level of congressional support, understanding and commitment that was necessary to bring it to the performance level of today.

**Second, with the nation looking for even greater production from our agricultural industry, including a major contribution to the new energy independence initiative while maintaining an abundant supply of safe and reasonably priced food, now is not the time to begin withdrawing federal financial support for a public policy that has proven to add real value to the agricultural industry and, therefore, to the nation's economic welfare.** Federal dollars going to the crop insurance industry are definitely being earned. They are buying real, tangible goods and services for the nation. It has taken a lot of hard work and resources to build the capability that is contained within the current crop insurance program. Let's work to avoid giving up these gains and thereby discounting more than a quarter of a century in time and effort building the current program. **The crop insurance program should not be viewed as a source of funds for other initiatives.** "Robbing Peter to pay Paul" never works. Other worthwhile programs should be funded without harming the successful crop insurance program.

Third, commodity prices have a long and uninterrupted history of moving both up and down. Agricultural commodities share the same price history. The 2007 Farm Bill should not be written on the assumption or theory that there has been a change of some nature – ethanol included – that will produce a different future for commodity prices. **The old adage – what goes up will come down – most definitely applies to the commodity world, especially including agriculture.**

Thank you for the opportunity to appear before you today and offer a testimony on the federal crop insurance program on behalf of the private-sector crop insurance delivery industry. I will be happy to respond to questions at the appropriate time.