NCIS Response to RMA's SRA "Myth vs. Fact"

The crop insurance industry was disappointed with the USDA's Risk Management Agency's (RMA) second draft of the Standard Reinsurance Agreement (SRA), which failed to reflect any serious treatment of the crop insurance industry's comments and recommendations offered in response to RMA's first draft. A document released by the RMA on the same day that second draft was issued (RMA "Myth versus Fact") further fails to respond seriously to our concerns and comments. Several of the so-called "myths" do not capture the substance of our concern, and the facts rebutting them simply reiterate RMA's position. The following is our attempt to address the factual issues we are raising, relative to some of RMA's characterizations, in the hope that in our ongoing conversations with RMA we can find a way together to discuss and work on our substantive concerns.

RMA Myth vs. Fact Statement	Crop Insurance Response
Myth: RMA has proposed a 40 percent cut in underwriting gains in the new SRA. Fact: Underwriting gains for the companies went up approximately 260 percent from 2006 to 2009. In total, Government expenditures to insurance providers have more than doubled during this time period – from $1.8 billion in 2006 to $3.8 billion in 2009 – at a time when the number of policies serviced has actually declined. Some are trying to suggest there are "cuts" in the SRA by comparing it to record gains in 2008 or 2009. Government payments in these years were historical anomalies, based on record crop prices, and not on an increased numbers of policies.	It is not clear what percentage cut RMA has proposed. To date, RMA has not released any detailed formal estimates to the industry regarding the levels of proposed reductions in the draft SRA. The President's Budget contained proposed funding reductions of $8 billion over 10 years. These reductions are measured from the level that funding is projected to be under a continuation of the current SRA. With the release of the second draft, the reductions are reported to be $6.9 billion over 10 years. RMA has not released to the industry its specific estimates of the dollar reductions in A&O payments or in underwriting gains. Further, RMA has released no program baseline estimates. With no specific funding cuts and baseline estimates publicly available, percentage reductions of RMA's proposals are unknown. RMA's failure to provide information on its baseline, funding cuts, and analysis of its proposals raises serious questions about the Administration's desire to be transparent. Comparing underwriting gains and government expenditures between 2006 and 2009 is not an appropriate basis for determining how crop insurance will perform in the future. Risky outcomes of insurance programs must be based on long-term actuarial analysis, not on a several year period. In fact, an independent analysis by Grant Thornton over a 17-year period (1992-2008) shows that the Federal Crop Insurance Program is significantly *less profitable* than the property and casualty industry, and has consistently lower expense-to-premium ratios. And while there have been good years – much due to favorable weather – the public-private partnership leverages this period to invest capital and build its reserves so that the program can cover future expected losses.

Myth: The SRA will not do enough to protect jobs in difficult economic times. There are an estimated 18,000 jobs that are tied to crop insurance. Fact: The new agreement seeks to provide more protection to companies in bad years, thus increasing the financial viability of companies for the long haul. In addition, the changes are designed to provide more stability for companies should commodity prices drop. While we are in difficult economic times, the new SRA seeks to provide reasonable compensation for delivery services that is neither excessive nor insufficient. The levels of projected funding are consistent with that of the mid-2000s, which provided many good jobs within rural America supporting the crop insurance program.	The excessive proposed funding cuts fail to recognize that crop insurance is a dynamic, growing program with costs rising as services to producers are increasing. Since 2006, acres enrolled in the program, coverage levels of producers, policies indemnified and investments needed to support IT and data collection have all trended up. It is no wonder that delivery expenses, including or excluding agent commissions, have trended up. Since 2000, 37 new county crop programs have been introduced. New products, more acres, higher coverage, increased frequency of indemnification in a price-volatile economy and IT investments are all expected to continue rising under the new SRA. In addition to rising costs, the industry has sustained A&O reductions of $1.45 billion over 10 years in the 2008 Farm Bill along with delays of nearly $1.8 billion in payments. In light of continued cost increases and 2008 Farm Bill cuts, it is inconceivable that employment in the industry can be maintained at current levels given the magnitude of the proposed SRA reductions. More importantly, it is inconceivable that service levels can be maintained. Companies and crop insurance agencies faced with multibillion dollar funding reductions will have little recourse but to scale back investments, lay off staff, reduce time spent with producers and even stop writing insurance in their least profitable states.
Myth: The new SRA will put crop insurance companies out of business and lead to more consolidation in the crop insurance industry. Fact: Under the new SRA, insurance companies can expect to earn a reasonable rate of return and have more protection in bad years. Although some consolidation has occurred in the Property and Casualty insurance industry generally, crop insurance companies have fared proportionately better – a trend that is expected to continue under the new SRA.	It is hard to image that the Administration believes it is a "myth" that their multibillion dollar cuts will not accelerate industry consolidation. Industry-estimated effects of RMA's proposed SRA show reductions in returns well below the long-term average for the crop insurance industry as well as returns well below those of the P&C industry. With the magnitude of the proposed funding reductions, not all companies will be able to stay in business. Thus, the terms of the proposed SRA will result in greater industry consolidation and surviving companies will not be able to provide the same level of service that crop insurance policyholders have come to rely upon. With volatile global markets and rising demands for credit, producers need a stable, adequately funded crop insurance program now more than ever.

Myth: RMA needs to focus more on the past history of the program, spanning 10 or 20 years instead of focusing on the most recent 2 or 3 years. Fact: RMA contracted with Milliman, Inc., to determine the long term profitability of the crop insurance industry. Milliman reviewed 20 years of data, the longest historical data set of all current profitability studies. The study found that companies earned an annual average rate of return of 16.6 percent over the period, well above the average reasonable rate of return of 12.8 percent. This past year, the companies' return is estimated to have been around 30 percent.	While many of RMA's public comments focus on the past several years, it is true that Milliman, Inc. evaluated 20 years of data. However, their methodology is suspect, relying on a variety of controversial assumptions. Milliman itself cautions "against drawing any strong conclusions on the adequacy or excessiveness of the historical returns," and notes how changes in their assumptions would change their estimated rates of return. The industry's concerns with using the Milliman study to determine appropriate funding cuts is well documented and may be found at http://www.ag-risk.org/NCISPUBS/SpecRPTS/Recommendations for_the_Standard_Reinsurance_Agreement.pdf. Although RMA does attempt to analyze the historical performance of the program, RMA fails to focus on the future. The crop insurance program continues to expand in terms of acres covered and increasing the variety of risk management tools available to farmers and ranchers, while RMA is recommending major funding reductions for the program. RMA/industry expansion efforts and statutory changes have resulted in increased information technology and data collection expenditures. RMA has also recently released an inconclusive actuarial review. It is not clear what the long-term program impacts would be of premium rate changes precipitated by the review. RMA has released no forward-looking assessment of the likely crop insurance program changes, the related program delivery costs, and the implications on rate of return from production and price risks confronting production agriculture, including the potential for increased volatility in commodity markets, the potentially devastating impacts of climate change and the implications of policies related to biofuels and climate change mitigation.