RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Eldon Gould, Administrator
before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year (FY) 2007 budget for the Risk Management Agency (RMA). Although this budget was developed by my predecessor, I have been fully briefed on the funding issues facing RMA and I support the funding level requested in this budget submission.

One of my principle goals is to make the crop insurance program more efficient so farmers can be less reliant on ad hoc disaster payments. When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously; cooperation and unity between the Government and our reinsured partners are necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating waste, fraud and abuse in the program to the greatest extinct possible. In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet farmer/rancher needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse need strengthening.

The Federal Crop Insurance Corporation continues to improve the economic stability of agriculture through a sound system of crop insurance, in paying out approximately $3.3 billion in losses in FY 2005. Overall, the program provided farmers with more than $44 billion in protection on about 246 million acres with a participation rate of about 80 percent (principal crops). In order to maintain and go beyond our current participation rate, while at the same time reducing the expectation of ad hoc disaster payments when bad weather or natural disasters strike, a strategy that compels the purchase of crop insurance must be implemented.

The 2007 budget supports more than $49 billion in protection on approximately 286 million acres through about 1.2 million policies. The appropriations required for this level of risk protection is $4.2 billion, which includes program administration, product evaluation and program oversight, as well as premium subsidies, administrative expenses reimbursements, and payments for excess losses estimated above the mandated loss ratio of 1.075. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $4.1 billion and for the Administrative and Operating Expenses, $80.8 million.

FCIC FUND

The FY 2007 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse for expenses incurred in delivering insurance to farmers and ranchers, and to provide premium subsidies to make crop insurance affordable. Of the total funding requested for the FCIC budget, 66 percent is for premium subsidies. This level of subsidy is necessary to maintain participation in the program and to encourage producers to purchase higher levels of coverage.

To make the crop insurance program more efficient and to reduce the reliance on ad hoc disaster payments, the 2007 budget includes a proposal to encourage producers to purchase more adequate crop insurance coverage by linking direct payments or any other Federal payment for crops to the purchase of crop insurance. This change will ensure farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reductions in delivery costs. Essentially, the majority of producers will have crop insurance and the minimum coverage level will be sufficient to support the producers when losses occur. The estimated savings to the program is $140 million beginning in 2008. This proposal will be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

The FCIC budget estimates are $2.7 billion for premium subsidy, $940.3 million for delivery expenses, $379.8 million for estimated excess losses, and $74.5 million for

Agricultural Risk Protection Act of 2000 (ARPA) initiatives. With the exception of ARPA initiatives, these estimates are based on program indicators derived from USDA's latest projections of planted acreage and expected market prices.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's FY 2007 request of $80.8 million for Administrative and Operating Expenses represents a base of $76.3 million, which includes $3.6 million for data mining, and an increase of about $4.5 million from FY 2006. The increase includes funding for an increase in Compliance staffing, $1.3 million; improving monitoring of the insurance companies, $1.0 million; pay costs, $1.2 million; and information technology costs of $1.0 million.

The 2007 budget requests $1.3 million to support an increase of 15 staff years. This will raise RMA's employment ceiling from 553 to 568. The 15 staff years will support the increased workload for the Compliance function to provide the staffing to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to improve the process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

Also included in the 2007 budget is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure effective internal and management controls are in place and operating for each reinsured company's business operations.

An increase of $1.2 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

Lastly, an increase of $1.0 million is requested for immediate IT requirements that will support patch-work enhancements to the existing IT system. If RMA is to continue to pay out billions of dollars in indemnity payments, it is prudent and necessary to have a current and reliable operating system to deliver the crop insurance program. To effectively manage a $4 billion crop insurance program, a modernized IT system is necessary to replace RMA's core IT operating system that is over 12 years old.

In light of that, an additional legislative proposal in the 2007 budget is being offered to require the reinsured companies to share in the cost to develop and maintain a new IT system. The companies would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed $15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of the agency.

PROGRAM MANAGEMENT

The following is an update on accomplishments and events in 2005 regarding key initiatives, activities and products:

- FCIC Board Activities
- Reinsurance
- Hurricane Crop Losses
- Pilot Programs
- Product Development
- Education and Outreach Program
- Agricultural Management Assistance
- Program Integrity

The FCIC Board of Directors consists of 10 members. The Board receives, reviews, and approves policies and plans of insurance and other related materials for reinsurance, risk subsidy, and administrative and operating subsidy. During 2005, the Board considered 62 action items during eight board meetings. The actions included 6 expert reviews, 23 program revisions and modifications, 10 new program submissions, and 23 corporate administrative items.

Reinsurance

Currently, there are 16 approved insurance providers. Recent entrants into the crop insurance program include: Austin Mutual Insurance Company and its managing general agent (MGA), Crop USA; Westfield Insurance Company and its MGA, John Deere Risk Protection, Inc., and Stonington Insurance Company and its MGA, Agro National, LLC. The new Standard Reinsurance Agreement has been put in place, effective beginning the 2005 crop year.

During 2005, RMA published a proposed rule for premium reduction plans (PRP). The PRP authorizes a company to pass confirmable cost savings to insured in the form of premium reductions. After a 60-day comment period, an interim final rule was published. Currently, nine insurance providers are eligible to offer a premium reduction plan for the 2006 reinsurance year. However, due to a provision in the 2006 appropriations act, the PRP will not be available for the 2007 reinsurance year which begins July 1, 2006.

Hurricane Crop Losses

Like other Federal agencies, RMA had a role in responding to victims of last years' hurricanes. When Wilma, Katrina and Rita hit the southeast and Gulf Coast areas, RMA's delivery system was available to respond to the crop losses ensuring the timely disbursement of payments. In addition, the Agency put in place emergency loss procedures to help producers who were subject to cancellation or termination dates for indebtedness or unpaid premium. This change allowed producers who might have become ineligible for the 2006 crop year to have additional time to either make payment of the premium due or execute a payment agreement with the approved insurance provider. This primarily impacted about 1,500 crop insurance policies that earned premium mostly on nursery, wheat, sugarcane, and oat crops. An estimated 500-600 insured producers were impacted. The following are the current 2005 loss estimates of the hurricanes:

Hurricane	States Impacted	Liability	Estimated Losses
Wilma	Florida	$1,196,400,000	$ 194,000,000
Katrina	Alabama, Florida, Mississippi, Louisiana	$ 525,710,000	$ 129,709,000
Rita	Arkansas, Louisiana, Texas	$ 130,183,000	$ 15,447,000
Total		**$1,852,293,000**	**$ 339,156,000**

Pilot Programs

RMA has 26 active pilot programs in various phases of development. The pilot programs for crop year 2005 are Adjusted Gross Revenue (AGR) and AGR-Lite, apple pilot quality option, avocado actual production history, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the Income Protection plan of insurance, mint, mustard, onion, pilot stage removal option, processing chile peppers, processing cucumbers, rangeland, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins. After about three to five years of experience, pilot program evaluations are performed to determine whether the plans of insurance should be converted to permanent programs and offered in counties where the crop is routinely grown. During 2005, RMA completed evaluations on eight (8) pilot programs including: cherries, chile peppers, California citrus, processing cucumbers, strawberries, winter squash, AGR and avocado revenue. After consideration by the FCIC Board, winter squash and processed cucumbers were terminated; cherries, chile peppers, and California citrus were continued as pilots until the 2006 crop year; and strawberries extended through the 2008 crop year. Consideration of the evaluations of AGR and avocado revenue pilots will come before the Board in the 2006 fiscal year.

Product Development

In January 2006, the FCIC Board approved two new pilots, pasture range and forage programs set to begin for the 2007 crop year. These are group-risk programs, one using a temperature adjusted normalized difference vegetative index and the other a rainfall index program. The programs will be piloted in different states and areas with sales beginning this fall. In addition, RMA plans to seek expert review of a third proposal this spring in an attempt to create viable products for commodities representing over 550 million acres.

Education and Outreach Program

A total of $4.4 million was distributed for education and outreach projects with State departments of agriculture, universities and non-profit organizations. As a result, crop insurance education was provided to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia and Wyoming. These educational projects will promote risk management education opportunities by informing agribusiness leaders about new trends in risk management and by delivering risk management training to producers with an added emphasis on reaching small farmers.

Similar to last year, RMA awarded 40 commodity partnership agreements at a cost of $5.5 million. These agreements will provide outreach to specialty crop producers to broaden their risk management education. In addition, RMA also directs education and outreach efforts toward women, small, and limited resource farmers, and ranchers. In 2005, 63 outreach projects were funded at a cost of $7 million. RMA continues to partner with community-based organizations such as 1862, 1890, and 1994 land grant colleges, universities, as well as, with Hispanic serving institutions to provide technical assistance and risk management education on managing farming risks.

Agricultural Management Assistance

In 2005, RMA provided $4.1 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted states. The primary goal of the program is to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to enter the program. In 2005, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

Program Integrity

RMA, the Farm Service Agency (FSA), and the reinsured companies continue to improve program compliance and integrity through: l) data reconciliation and matching of disaster program payments; 2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and 3) creating anti-fraud distance learning training packages as required by Agricultural Risk Protection Act of 2000. Compliance managers have increased efforts to integrate new data mining projects to improve program results and are exploring ways to expedite processing of sanctions requests.

The efforts of FSA and the results from the data mining and analysis tools have greatly improved the referral activity to and from RMA. As a result, from the period of January to December, 2004, an estimated $71 million reduction in program costs has been identified by preventing or deferring unsubstantiated claims.

Currently, to manage the referral activity and the responsibilities of data reconciliation RMA has dealt with the added workload by increasing emphasis on data management and computer based resources. But the workload continues to create a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the FY 2007 budget includes 15 additional staff years for Compliance to strengthen the front-end reviews of approved insurance providers and to address outstanding recommendations to improve oversight and internal controls over insurance providers.

CONCLUSION

RMA is faced with many challenges to make the crop insurance program more efficient and effective. But along with these challenges come opportunities to provide more meaningful insurance products and tools, ensure a first-rate delivery system and the opportunity to verify and validate that the program is solvent and administered with integrity. I look forward to working with our stakeholders to make this program even better than it is today. However, the improvements require the resources requested in the 2007 budget along with passage of the proposed legislations.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions.