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# RISK MANAGEMENT AGENCY
# FEDERAL CROP INSURANCE COPORATION

**Statement of William J. Murphy, Administrator and Manager before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies**

Chairman Kingston, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the fiscal year 2013 Budget for the Risk Management Agency (RMA). The Federal Crop Insurance Program is an integral part of the farm safety net. RMA works daily to validate the utility of current insurance products – making certain we have the best protection possible for all of America's farmers and ranchers. RMA works to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against fraud, waste, and abuse within the program. In RMA's role as a regulator, it must also ensure the continued integrity and actuarial soundness of the Federal Crop Insurance Program.

We are also aware that in today's economy, it is particularly important that the program be cost effective and give a fair value for the taxpayers' dollar. These days, it seems we all face greater demands, but with fewer resources available to achieve our objectives. We are a strong nation capable of making the shared sacrifices necessary to succeed. Our decisions are tough. Still, the President and Secretary Vilsack have underscored our resolve to work in a leaner environment and to accomplish more with less.

## STATUS OF THE FEDERAL CROP INSURANCE PROGRAM

The Federal Crop Insurance Program is helping the men and women who produce America's agricultural products to manage risk in an inherently risky business. For crop year 2011 with 1.1 million policies on 264 million acres, the program provided more than $113 billion in risk protection. Of the $11.7 billion in total premium, USDA subsidized $7.4 billion for farmers, and paid out $10.6 billion in claims to date for lost revenue or damaged crops. In addition, RMA awarded $9.6 million in outreach and risk management education partnership agreements during 2011, which directly supported women, veterans, small and limited resource farmers and ranchers, and other minority producers.

Producers generally have a choice of crop policies with coverage they can tailor to best fit their risk management needs. In many cases, producers can buy insurance coverage for a yield loss, or revenue protection to provide coverage for a decline in yield or price. Today, most producers "buy up" to higher levels of coverage ranging up to 85 percent (smallest deductible) although a low level of catastrophic coverage (CAT) is still available for a nominal fee with the premium fully subsidized. Indemnity payments are usually made within 30 days after the producer signs the claim form.

Producers also have their choice of livestock programs, which are designed to insure against declining market prices of livestock. Coverage in these programs is determined using futures and options prices from the Chicago Mercantile Exchange Group. The crop insurance program has seen an increasing proportion of acres insured at buy up levels over the last decade. The type of coverage being purchased is also shifting to the more comprehensive revenue coverage. In 2011, revenue coverage accounted for 67 percent of the insured acres, compared to just 33 percent in 2000. In addition, the average coverage level (percent of the total crop covered) for buy up insurance has increased to approximately 74 percent for 2011, compared to 68 percent in 2000.

In crop year 2011, Federal crop insurance was available for approximately 350 commodities, in over 3,141 counties covering all 50 States and Puerto Rico. RMA maintained a participation rate of nearly 84 percent for the ten principal crops in 2011. Many banks now require or at least encourage crop insurance coverage in order to make operating loans to producers. Federal crop insurance has become a fact of life for many farmers.

Improvements to the program have been accomplished in an actuarially sound manner as required by Congress. Over the last two decades, premiums (producer premiums added to premium subsidies) have been sufficient to cover the indemnities paid to producers plus a reasonable reserve, as directed by the Federal Crop Insurance Act.

In line with what Congress has directed RMA to do with respect to this law, we have been working to administer the Federal crop insurance program in a manner that provides effective risk management opportunities to farmers and ranchers in all geographic areas regardless of the size of their operation.

RMA has made a concerted effort to work with private entities under authority provided under section 508(h) of the Federal Crop Insurance Act to expand the availability of crop insurance coverage to a diverse agricultural population. Over the past 2 years, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) has approved the following 508(h) product submissions:

- Louisiana Fresh and Processing Sweet Potato, Trend-Adjusted Actual Production History (APH), APH-Olives, and Camelina insurance plans to provide yield based coverage;
- Significant revisions to the Livestock Gross Margin for Dairy Cattle and Swine to improve participation;
- Popcorn Revenue insurance plan to compliment the APH plan currently available;
- Specialty-Trait Soybeans to allow producers of food grade soybeans to insure their production at prices commensurate with market prices for their production;
- Texas Citrus Tree policy enhancements to provide for more comprehensive coverage;
- Annual Forage to cover a lack of rainfall during a specific period of time on crops that are used as annual forage; and
- An option for growers to adjust their APH to account for long-term yield trends, resulting in coverage that better reflects their true productive potential.

In addition, at the request of growers, RMA combined the Plum Crop Insurance Provisions and the Stonefruit Crop Insurance Provisions to expand insurance availability for plums to other states such as Idaho, Oregon and Washington. Sunflower changes were made in 2010 to provide optional units by type, specifically allowing farmers to have separate optional units for their oil and non-oil sunflowers.  Buckwheat insurance coverage was made available to producers in selected counties in the states of Minnesota, North Dakota and Washington.

To address concerns raised by ranchers and several State Departments of Agriculture, the FCIC Board approved the expansion of the Rainfall Index and Vegetation Index Pasture, Rangeland, and Forage program and the Apiculture program into several states.  In addition, RMA has worked with the Precision Agriculture Industry to expand the use of precision agriculture by allowing producers to use their acreage and yield monitor records in conjunction with other precision farming records to separate and report production history and for assisting in loss adjustment determinations.

## OVERVIEW OF THE 2013 RMA BUDGET PROPOSAL

The 2013 RMA budget proposal for the discretionary Administrative and Operating (A&O) Expense Account is straight-lined from the 2012 level of $74.9 million.

The mandatory Federal Crop Insurance Corporation (FCIC) Fund reflects a $5.96 billion increase which is a result of the timing shifts outlined in the 2008 Farm Bill.  In order for the Federal Crop Insurance Program to support risk protection coverage of $97.6 billion in 2013, the funding level proposed for the FCIC Fund is $9.4 billion.

The 2013 Budget reflects the policies recommended in the President's Plan for Economic Growth and Deficit Reduction, which includes four crop insurance proposals that will save an estimated $7.6 billion over 10 years.

The proposal focuses on four elements:

First, premium rates for catastrophic coverage are adjusted to reflect the historical loss experience for this coverage.  This re-rating will not impact or affect farmers in any way, but it will provide savings of more than $200 million over 10 years.

Second, the proposal reduces the administrative and operating expense (A&O) payment that is provided to the companies for the implementation and administration of the crop insurance program.  Essentially, this proposal further reduces the existing cap on A&O and would save slightly less than 2.9 billion dollars over 10 years.

Third, the President's proposal would reduce the expected return to companies from the sale of crop insurance.  In the new Standard Reinsurance Agreement, the target rate of return on retained premium to the companies for the risk they retain is about 14 percent.  The agreement is structured to provide about a 14 percent return on retained premium to the companies over time.  Based on studies, we believe that roughly a 12 percent return on retained premium is sufficient to adequately support the industry.  This would save $1.2 billion over 10 years.

Fourth, the Administration's proposal suggests a premium adjustment for those farmers who are currently purchasing policies where the subsidy to them is more than 50 percent of the premium. This will not affect any producer whose subsidy is at 50 percent or below, but will save $3.3 billion over 10 years.

## RECENT KEY ACCOMPLISHMENTS

### RE-RATING:

RMA continues to review the methodology for determining fair, equitable, and actuarially sound premium rates for crop insurance. This practice is consistent with sound actuarial principles to assure the best estimate of premium dollars needed to pay future anticipated losses. For crop year 2012, RMA is phasing in rate revisions for corn and soybeans, and on average, adjustments result in overall rate decreases of around 7 percent and 9 percent, respectively. Crops anticipated for crop year 2013 implementation include wheat and cotton.

### THE ACREAGE CROP REPORTING STREAMLINING INITIATIVE (ACRSI):

Representatives from RMA, Farm Service Agency, Natural Resources Conservation Service, and the National Agricultural Statistics Service have simplified and standardized the acreage reporting process across various USDA programs. They have developed a common framework for producers to report eligibility and participation information, thereby reducing the reporting burden on producers as well as the administrative and operating costs of the USDA.

ACRSI has already demonstrated results. Before the ACRSI initiative, FSA had 17 acreage reporting dates for 273 crops and RMA had 54 acreage reporting dates for 122 crops. With ACRSI, there are now 15 acreage reporting dates common to both RMA and FSA programs. There are a few exceptions for which it was not possible to establish a common date, though such exceptions are thankfully few. Funding to develop and maintain the IT infrastructure required for ACRSI is being made available from the FCIC Fund. The Federal Crop Insurance Act authorizes RMA to use funding received through administrative fees collected from crop insurance participants to develop program-related IT systems.

## CAMELINA:

A new Federal crop insurance program for the energy crop Camelina was approved by the Board in September 2011 and is now available for the 2012 crop year. The new program is based on actual production history, and is available in selected counties in Montana and North Dakota.

## LIVESTOCK GROSS MARGIN INSURANCE FOR DAIRY:

Livestock Gross Margin insurance (LGM) is a privately developed insurance product submitted by Iowa Agricultural Insurance Innovations, L.L.C. (IAII) and approved by the Board under section 508(h) of the Federal Crop Insurance Act. LGM is owned and maintained by IAII. In addition to dairy, LGM products owned by IAII are also available for swine and cattle.

Sales of LGM-Dairy were first initiated for the 2009 reinsurance year; just 40 policies earned premium in that first year. In response to dairy producer concerns, the Board approved changes to LGM-Dairy advanced by IAII that became effective in mid-December 2010. The changes included moving the premium billing date to the end of the insurance period and adding graduated premium subsidies.

Premium subsidy originally was not requested for LGM-Swine and LGM-Cattle. Recently, the inclusion of a premium subsidy and moving the premium billing date, along with a concerted effort among industry groups to promote LGM-Dairy, caused a surge in sales. RMA revised the funding allocation for LGM-Dairy, eventually making about $16 million in underwriting capacity available for the product. The $16 million in funding for LGM-Dairy was exhausted in March of 2011. Before the 2011 reinsurance year, expenditures for all livestock products combined had never approached $5 million in any one year.

With the beginning of a new fiscal year in October 2011, new funding became available and sales of LGM-Dairy began anew. In January 2012, RMA ended further sales of LGM-Dairy for 2012 ensuring that some funding would remain available to facilitate sales of the seven other livestock insurance plans. An additional LGM-Dairy sales period may be offered at the end of 2012 if it is determined that sufficient funding remains available.

CONCLUSION

Along with members of the FCIC Board of Directors and all the RMA staff across the country, I recognize that the risk management tools that RMA provides are a critical part of the farm safety net for America's farmers and ranchers. We are also very aware of our responsibility to be good stewards of taxpayer money. By creating and maintaining a Standard Reinsurance Agreement that upholds excellent service to farmers and ranchers, while reducing costs to taxpayers, and by making several other important improvements to the program, we at RMA have acted responsibly with our private sector partners to improve the farm safety net. Again, thank you for the opportunity to participate in this important hearing.

Mr. Chairman, I would be pleased to answer any questions that you and other members of the Subcommittee may have. Thank you.