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Chairman Conaway, Ranking Member Boswell, and Committee Members, I am pleased to meet with you today to discuss the latest developments in the Risk Management Agency (RMA), the progress and challenges of the Federal crop insurance program, and the status of the Standard Reinsurance Agreement (SRA) and its benefits to the agricultural community and the American taxpayer. My staff and I work daily to validate the utility of current insurance products – making certain we offer the best risk management protection possible for all of America's farmers and ranchers. The agency, along with our fifteen approved crop insurance companies, provide risk management tools that are compatible with international trade commitments, create products and services that are actuarially sound and market driven, harness the strengths of both the public and private sectors, and reflect the diversity of the agricultural sector.

Crop insurance is a vital part of the farm safety net and has become an integral part of business life for a large majority of American farmers and ranchers. They would find it difficult to continue providing the United States and the world with an abundant supply of food, fiber and fuel without the protection provided by this part of the farm safety net. Many lenders now require crop insurance coverage in order to make operating loans to crop and livestock producers, and many producers use crop insurance as collateral for the loans.

There is a unique and successful relationship between RMA and our private partners, the 15 approved insurance companies, and the agents who deal directly with farmers and ranchers. Producers purchase Federal crop or livestock insurance from insurance agents operating in their communities, who sell the insurance on behalf of the 15 insurance companies. This relationship leverages the respective strengths of the public and private sectors. The insurance companies provide Federal crop insurance under reinsurance agreements with the Federal Crop Insurance Corporation (FCIC), administered by RMA.

The 2011 crop year, with widespread flooding in some areas accompanied by severe drought in other areas, has been a test of the crop insurance program. My staff and I are closely watching all developments to insure that producers get the protection provided by their policies. The Prevented Planting coverage available in most policies has been of extreme importance this year in areas where standing water or waterlogged soil prevented producers from getting into their fields until past the time for planting. In drought stricken areas, the compensation provided for reduced yields will be extremely important in helping producers to survive. In years like this one, the value of this critical safety net is made clear.

Brief History

Participation in the crop insurance program increased significantly following changes enacted in 1994 by Congress. For example, fewer than 100 million acres of farmland were insured under the program in 1994. Today, over 250 million acres of farm and ranch lands are covered by Federal crop insurance, for an overall participation rate exceeding 80 percent for the major crops.

As the amount of insured acreage has increased, so too has the liability, or value of the insurance in force. In 1994, program liability was less than $14 billion. Industry estimates suggest 2011 program liability could exceed $100 billion. The crop insurance program has seen sustained growth as demonstrated by the increasing proportion of acres insured at buy up levels over the last decade. Today, over 90 percent of all policyholders purchase buy-up levels of coverage. Of note is the significant level of participation by specialty crop producers. The overall participation rate for specialty crop producers is about 75 percent, which is fairly comparable to the 83 percent participation rate for the major program crops. Important fruit, nut and vegetable states California (71%), Florida (91%), and Washington (68%) each score well in Federal crop insurance program participation.

This growth has been accomplished in an actuarially sound manner as required by Congress and the program is working well. 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 2000, Congress enacted the Agricultural Risk Protection Act (ARPA) that expanded the role of the private sector allowing entities to participate in conducting research and development of new insurance products and features. With the expansion of contracting authority, RMA can enter into contracts for research and development of new and innovative insurance products. Private entities may also submit unsolicited proposals for insurance products to the FCIC Board of Directors (Board) for approval. If approved by the Board, these unsolicited insurance products are eligible to receive reimbursement for research, development and maintenance costs, in addition to any approved premium subsidies and reinsurance.

ARPA also removed restrictions on the development of insurance products for livestock. Authority was added to allow the Board to create an expert review panel to provide assistance to the Board and RMA in evaluating proposed insurance products for feasibility and actuarial soundness. Premium subsidies to farmers were increased to encourage producers to purchase higher insurance coverage levels and to make the insurance program more attractive to prospective producers. Throughout all of this, RMA has implemented many innovations to keep up with industry advances as well as customer demands.

STANDARD REINSURANCE AGREEMENT

On June 10, 2010, USDA released the new reinsurance agreement and announced that $6 billion in savings were created through this action. Two-thirds of this savings went toward paying down the Federal deficit, and the remaining third was used to support high priority risk management and conservation programs. By containing program costs, these changes also ensure the sustainability of the crop insurance program for America's farmers and ranchers for years to come.

CIMS & ACRSI

The 2002 Farm Bill required the Secretary of Agriculture to develop a Comprehensive Information Management System (CIMS) to be used by the Farm Service Agency (FSA) and RMA in the farm programs they administer. CIMS was made available for use in September 2007. It provides access for over 12,000 users from RMA, FSA and the crop insurance companies as a single source of RMA and FSA program information for producers, crop acreage and production. The next stage of information sharing is now underway with the Acreage/Crop Reporting Streamlining Initiative (ACRSI). This is a Departmental effort with cross functional representation from RMA, FSA, Natural Resources Conservation Service, and National Agricultural Statistics Service.

The objective of ACRSI is to establish a common USDA framework for producer commodity reporting in support of USDA programs and to establish common data standards of information used for producer commodity reporting. ACRSI and CIMS will facilitate 'one-stop' reporting of producer information and greater data sharing of data among government agencies. This will provide for greatly improved integrity and accuracy of the data collected and reported to USDA. RMA and FSA will be able to efficiently identify discrepancies, cases of misreporting, and potential fraud, waste, and abuse, thus reducing the potential for improper payments. Furthermore, these efforts will save time and money for the Government, producers and companies by reducing reporting and data management burdens.

LIVESTOCK PRODUCTS

ARPA authorized RMA to offer insurance products for livestock producers and provided $20 million in funding to cover administrative and operating (A&O) and premium subsidy costs for pilot livestock insurance plans each fiscal year. RMA currently reinsures eight livestock products, all of which were developed and submitted by private parties through the authorities contained in Section 508(h) of the Federal Crop Insurance Act. There are two basic insurance models used to offer livestock insurance: Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM). LRP provides protection against unexpected declines in the price of certain livestock – feeder cattle, fed cattle, lamb, and swine. LGM provides protection to livestock producers against unexpected increases in feed costs or unexpected declines in prices for the insured livestock product. Gross margin is the market value of the insured livestock product minus feed costs. As we have noted previously, the $20 million in annual funding for all livestock programs was exhausted in March because of the increased popularity of LGM-Dairy. Thus, none of the livestock programs are currently available. They will be offered again in fiscal year 2012 when an additional $20 million in funding becomes available.

PROGRAM INTEGRITY AND DATA MINING

In conjunction with the improved quality control requirements in the new SRA, RMA Compliance has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone. RMA is reviewing company operations and internal controls to determine the success of their efforts to address crop insurance program vulnerability concerns.

RMA continues to make significant progress in preempting fraud, waste and abuse through the expanded use of data mining. ARPA directed RMA to employ data mining technologies to program compliance and integrity efforts, and provided the funding necessary to support these activities. ARPA also provided a role for FSA to assist RMA in further program compliance and integrity. RMA subsequently entered into a contract with the Center for Agribusiness Excellence

(CAE) at Tarleton State University to develop and maintain appropriate data warehousing and data mining capabilities. Annually, CAE produces a spot-check list of producers engaging in questionable behaviors which is provided to FSA for further investigation. With the assistance of FSA offices, RMA and the insurance companies conduct growing season spot checks to ensure that claims for losses are legitimate.

These efforts have been highly successful as the cumulative cost avoidance from data mining and related activities from 2001 through 2010 is estimated to be almost $840 million, based on our analysis of the changes in loss experience for those people placed on the spot-check list. In light of the success of the spot-check program, the new SRA broadens the use of data mining to help direct company efforts at detecting and investigating suspect behaviors. We believe the targeted company reviews enabled by data mining will be more effective and efficient than the random review process of previous years.

While RMA, FSA and the crop insurance companies have preempted tens of millions of dollars of improper payments through quality controls, data mining, and other measures, RMA is constantly identifying ways to balance competing needs to make our products less susceptible to fraud while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we are making good progress in our fight against waste, fraud and abuse in the Federal crop insurance program.

PREMIUM RATES

One of the most important considerations for the Federal crop insurance program is the premium cost for producers. If premium rates are too high, producers will not participate in the crop insurance program. If premium rates are too low, actuarial performance will deteriorate. RMA continually seeks to improve its premium rating methodology and maintain actuarial balance. RMA recently commissioned a comprehensive review of its rating methodology by a panel of outside experts. A preliminary draft of the review was posted for public comment. The final draft, as well as the response to public comments, is available on RMA's website. The review supported RMA's overall approach to generating premium rates based on historical loss experience, and provided a number of recommendations for potential improvements that RMA is pursuing. The most critical of these recommendations is for RMA to determine if all historical losses should be given the same weight in determining current premium rates. Work on the reweighting of historical loss experience is currently ongoing.

CONCEPT PROPOSALS

The 2008 Farm Bill provided an alternative for producers and private entities to submit to the FCIC Board, proposals for insurance coverage for agricultural commodities not traditionally served, and to improve current insurance coverage. Private entities are authorized to submit Concept Proposals for plans of insurance to the Board for approval of an advance payment of up to half of their estimated research and development costs to assist them in developing a completed 508(h) insurance product. Completed 508(h) products receive reimbursement of the balance of their research and development costs and up to four years of maintenance expenses if approved by the Board. To date, the Board has received 23 Concept Proposals and approved 11 for advance payments totaling approximately $1.7 million.

COMBINATION POLICIES (COMBO)

On March 30, 2010, RMA published the final rule for the Common Crop Insurance Policy, commonly known as the COMBO policy, to be effective for the 2011 crop year. The COMBO policy combines five plans of insurance into a single plan of insurance. This new policy makes risk management decisions simpler for the producer and enhances program efficiency by reducing inconsistencies, duplication, and paperwork. Furthermore, by combining the previous five plans of insurance into a single plan RMA eliminated a primary source of confusion and error in the administration of the Federal crop insurance program. Another benefit of the COMBO policy is the use of a single rating and pricing component so all coverage is consistent in terms of protection and cost. Similar efforts are underway to combine RMA's area-based programs (Group Risk Plan – GRP, and Group Risk Income Protection – GRIP) into a single plan of insurance.

INFORMATION TECHNOLOGY MODERNIZATION

The Information Technology Modernization (ITM) project, RMA's technology reengineering initiative, began in earnest in FY 2008, based on funding received in the Farm Bill. Phase I was completed in FY 2010, and included significant achievements to deploy the majority of the actuarial tools required to generate 2011 insurance offers and provide for validation of detailed policy data received from crop insurance companies that is used as the basis for calculation of expense reimbursement and risk sharing between RMA and the companies in accordance with the SRA. Accepted data is also used for future rating and publicly generated reports. Rollover of the 2011 crop year actuarial data was accomplished and the first filing for the 2012 crop year took place on April 30, 2011.

Phase II development continues and focuses on corporate reporting providing data reporting and analysis capabilities. On-demand analysis and standardize reporting will be available on multiple years of actuarial, policy, and financial data. The analytical environment has been set up and development has begun on standardized reports. ITM Phase II also includes Regional Office Exceptions (ROE) written agreement processing. ITM Phase II is progressing towards scheduled operations in July 2011. Enhancements to the ITM production system have been implemented for actuarial processes, policy processing, premium calculations, and other Phase I capabilities.

RMA supports many information technology functions using private contractors. The contract for IT services is generally for five years and is due to expire in 2011. In January 2011, RMA competitively awarded a new contract for IT services until 2015. Accounting and other corporate reporting capabilities will be implemented in the new system as part of this contract, and is scheduled to be complete at the end of the calendar year.

ORGANIC CROPS

RMA continues to move forward in improving crop insurance coverage for organic producers so they will have viable and effective risk management options like many of the conventional crop programs. Consistent with the 2008 Farm Bill, RMA contracted for research into whether or not sufficient data exists upon which RMA could determine a price election for organic crops, and if such data exists, to develop a pricing methodology using that data. Also included in the contract was research into the underwriting, risk and loss experience of organic crops as compared with the same crops produced in the same counties during the same crop years using nonorganic methods. Three reports have been completed from this study.

The first report outlined research into data that exists today that could support price elections for various organic crops. The second report outlined a proposed methodology for development of a price election for organic cotton, corn and soybeans. The third report presented the results of the contractor's comparative analysis of loss experience for organic crops and conventional crops that were produced in the same counties during the same crop years.

RMA intends to establish dedicated price elections for organic crops where supported by data and sound economic pricing principles. The first of these organic price elections became available for the 2011 crop year. In addition, RMA will continue to capitalize on improved data collection and sharing of organic production and price data occurring throughout USDA, an initiative to better leverage the resources of all of our agencies to address this important segment of agriculture.

RMA will continue to evaluate the loss experience of both organic and conventional practices to ensure that premium rating is commensurate with the level of risk for each. This includes revising surcharges for those areas or situations that merit such consideration.

QUALITY ADJUSTMENT

Another area of continued challenge to the program involves providing coverage for reduced quality in a harvested crop. RMA provides quality adjustment for many crops, based primarily on standards contained in the Official United States Standards for Grain, such as test weight, kernel damage, etc. Wheat, for example, is eligible for quality adjustment when poor quality results in a grade worse than U.S. #4. While producers and the crop insurance companies have been generally supportive of RMA's quality adjustment provisions, in some instances producers would like to see quality adjustment begin when their grain quality loss is not as severe as current rules require. Additionally, producers contend that quality adjustments in the program do not always reflect what they are actually discounted in the market place. This is most often heard earlier in the harvest season when the extent of poor quality is not fully known and grain buyers tend to have more severe discounts.

One of the challenges for RMA's organic program is to assure that the availability of Federal crop insurance does not inappropriately affect market dynamics, such as buyers imposing larger quality discounts and relying on Federal crop insurance to make producers whole. Similarly, crop insurance is not meant to provide coverage for the marketing errors of producers or for a general deterioration in market conditions – unless, of course, such deterioration is a covered cause of loss. RMA continually strives to provide standard quality discounts that apply to all producers nationwide so everyone is treated equitably and the crop insurance program does not promote or become subject to abusive market practices. RMA has continued to work with grower associations and others to continually improve the effectiveness of its quality adjustment provisions.

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Mr. Chairman, this concludes my statement. Thank you for the opportunity to meet with you today. We look forward to working with you and Committee Members and will be pleased to provide whatever assistance you may request. I would be pleased to answer any questions you and other Members of the Committee may have.