STATEMENT
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

BEFORE THE

COMMITTEE ON AGRICULUTRE; SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 17, 2012

The Big "I" is the nation's oldest and largest national trade association of independent insurance agents and brokers, and we represent a nationwide network of more than a quarter million agents, brokers and employees. Independent agents offer all lines of insurance – property, casualty, life, health, employee benefit plans, retirement products, and crop insurance. Our agents serve the needs of their communities not only by offering important insurance products to their neighbors, but also by serving as key community leaders – we have agents who serve as volunteer firefighters, youth leaders, school board and city council members.

The typical agency employs not only the writing agent, but also licensed support-staff who help in servicing the products. They have considerable overhead – computers with high-speed internet connections, office space leases, advertising costs, auto expenses, payroll, their own insurance (liability, workers' compensation, health), taxes, and other expenses that are drawn directly from the agent's commissions collected from selling insurance products.

Specifically regarding crop insurance, today an agent does more work per crop policy than ever before. Agents do all the data entry, and they keep the yield records per unit – not per policy. The reality is that agents require an extraordinary amount of expertise in servicing this insurance product per acre. In 2011 farmers held 1.15 million polices and crop insurance agents are proud to be partners in the successful operation of this invaluable program for farmers. We appreciate the opportunity to provide our perspective today on the important role independent agents play in the sale and delivery of the Federal Crop Insurance Program (FCIP).

2012 Farm Bill

While supporting the overall goal of balancing the federal budget, the Big "I" believes that the crop insurance program has already sustained a disproportionate level of cuts in the name of deficit reduction. The reductions endured by the FCIP through the 2008 Farm Bill and the 2011 Standard Reinsurance Agreement (SRA) total $12 billion. In an attempt to "streamline and modernize" the FCIP, the Administration has already made significant reductions to subsidies for crop insurance which subsequently raises the price of premiums for farmers. When asked, farmers have consistently stressed that ensuring a strong safety net is vital to the future of the nation's farming communities. As Congress continues to work on the 2012 Farm Bill, it is imperative that any decisions or changes to the present crop program serve our farmers' risk management needs and not simply shift funds away from the FCIP. In addition, any new proposals should not impinge or overreach on the practical and successful programs already in place. IIABA understands the need to revisit federal programs over time; however, additional cuts to the FCIP will reverberate in small rural communities across the country, jeopardizing the efficient and effective quality of services provided to farmers. Further cuts to the FCIP on top of the $12 billion over ten years will only hinder small business growth in America's heartland.

Agents - The Exclusive Sales Force of the FCIP

The Federal Crop Insurance Program (FCIP) is a powerful success story, and IIABA is proud to have been a key player in the evolution of the program as it moved from a federally-provided program to a public-private partnership. Independent agents are the sole delivery mechanism of the FCIP, and this important and successful relationship has resulted in the program offering better protection to farmers over the past 30 years. In 2011, approximately 18,000 agents serviced 1.15 million crop insurance policies. These policies cover 83% of the nation's cropland and provide the strongest safety net to America's world food producers. In 2011, companies and agents sold policies worth a record $4.5 billion in producer paid premiums covering a record $114 billion in production.

Crop insurance provides essential benefits to farmers and ranchers, and it has proven instrumental in achieving the program's goal of helping farmers make well-informed risk assessments and choices about the coverages they purchase. Crop insurance agents are experts in the FCIP, which makes them exclusively skilled at assisting farmers who have questions or concerns about their coverage.

A federal government entity will never be able to achieve the level of efficient services provided to farmers by independent agents. If the goal of the Administration is to continue to reduce its administrative costs, shifting additional responsibilities over to the Farm Services Agency (FSA) will have the opposite effect. Agents are already highly skilled and knowledgeable about the intricacies of the numerous policies and programs available to farmers. Training FSA employees unfamiliar with these polices, particularly with respect to the extremely detailed technology programs used to execute these policies, will be costly. In addition, providing all FSA offices with the necessary technological tools (i.e. color printers, computers, etc.) will result in a heavy cost burden.

Agent Workload and Program Complexity

Even more than other insurance lines, a crop agent's responsibilities require a hands-on approach. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately seven hours on a policy during the sales window alone. A transaction typically begins with the agent quoting the wide variety of different plans of insurance available, then explaining production reporting and supporting record requirements to the farmer. The agent explains different date requirements by crop and coverage for application, the actual production history (APH), the acreage report, and the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent must also review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide the farmer with a copy.

Additionally, the agent is responsible for implementing procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. All of the preceding goes into writing the policy – and does not even factor in the consequences, and the time spent in the event of a potential loss, which occurs more often than any other line of insurance. The sale of crop insurance is indeed extremely complex and challenging.

<u>Preventing Waste Fraud & Abuse</u>

In 2011 the RMA included an Anti-Rebating Certification Clause in the 2012 Document Standards Handbook. The certification will be included on the form in which liability is established for the policy, e.g., acreage reporting time. In a strong attempt to preserve the integrity of the crop program, the inclusion of this certification was <u>spearheaded</u> by the IIABA Crop Insurance Task Force. Rebating undermines consumer confidence in agents, the companies and the crop insurance program as a whole. It is important to address and halt any future manipulations of the program. (See final page for certification language).

<u>Crop Insurance - an Indispensable Financing Tool</u>

The Federal Crop Insurance Program is an indispensable financing tool. Without crop insurance, many farmers would be unable to obtain financing. Protection provided by the program gives a lender much more confidence in extending credit. Crop insurance makes the process of farmers obtaining annual operating loans much easier and more efficient. In the case of farmers who have purchased crop insurance, banks usually require less collateral because they consider these farmers to be better protected. Crop insurance is especially critical for younger farmers with less collateral who would be unable to obtain financing without crop insurance. The purchasing cost of crop insurance provides certain benefits for the farming operation, including greater ability to finance land purchases, enter into land rental contracts, and arrange production input purchases. Farmers understand more and more that crop insurance is another cost of doing business and have reiterated that preserving the FCIP should be a fundamental goal of the Farm Bill.

Standard Reinsurance Agreement (SRA)

The Big "I" has serious concerns with components of the 2011 Standard Reinsurance Agreement (SRA) which cut the FCIP by $6 billion over ten years and made unprecedented and sweeping changes to the delivery system. SRA negotiations are held behind closed doors without agent participation, yet the outcome of these negotiations has a huge impact on the day to day business operations of every crop insurance agency. Last minute changes to the SRA were unveiled by the United States Department of Agriculture (USDA) in the final version of the SRA in an all-or-nothing approach presented to both the agents and the companies. The 2010 SRA radically changed the reimbursement rate for administrative and operating (A&O) expenses in a way that shifts significant delivery dollars between states, resulting in massive cuts to certain states such as California, Florida and New York in 2011 — states with crops that USDA maintained the SRA was intended to benefit by "rebalancing" the distribution of insurance. In addition, Midwest states took a disproportional level of cuts to their A&O, a part of the country that has already been hit hard by the economic recession. The bottom line from the fallout of the SRA is that five states took the brunt of the SRA cuts. Those states were Iowa, Illinois, Indiana, Minnesota and Nebraska. Crop insurance is an essential component of job creation in these rural states. Many agencies employ full and part time support staff (in addition to agents) to help service customers. Continuous cuts to the program, coupled with great uncertainty in the future of the program, have begun to have a destabilizing effect on rural jobs.

The SRA imposed an 80% cap on the compensation a private company may pay private agents for the delivery of insurance. This unreasonable agreement represented the first time that RMA had attempted to enforce price controls and regulate agent crop insurance commissions directly rather than allow the marketplace to determine the appropriate agent commission rate. The proposed 80% commission cap does not save the government any money, or affect the budget baseline for the program. The cap only serves to further compromise the crop insurance program and its intended beneficiaries – farmers and ranchers. IIABA feels strongly that the 80% commission cap should be removed. The $6 billion cut to the program – on top of the cuts already made to the 2008 Farm Bill – coupled with the controlling commission cap proposal, greatly undermine crop insurance agents and the service they can provide to producers. SRA negotiations are held behind closed doors without agent participation, yet the outcome of these negotiations has a huge impact on the day to day business operations of every crop insurance agency. IIABA feels <u>strongly</u> that the 80% commission cap should be removed.

The Administration's broad reforms have also ultimately led to the SRA containing a "covenant not to sue," which effectively restricts agents from bringing lawsuits against the federal government for claims related to the A&O cuts. Insurance agents are not parties to the SRA and should not be forced to waive their legal rights. The lasting effect of this covenant is that agents cannot negotiate with RMA about the A&O cuts during the drafting of the SRA, and agents are now going to be denied their legal right to challenge these cuts in court. RMA is silencing agents by not allowing them to have a voice on an issue that directly affects their livelihood.

Conclusion

We greatly appreciate the opportunity to present our testimony at this hearing, and we are more than happy to provide further details on any of the issues I have discussed. The Big "I" understands the challenges the Committee faces in crafting a new Farm Bill, but we also believe that this vital program has proven its strength and effectiveness and will serve as a springboard to an even more prosperous future of agricultural development.

D. ANTI-REBATING CERTIFICATION STATEMENT

In accordance with section 508(a)(9) of the Federal Crop Insurance Act and the SRA, a company and its affiliates are prohibited from providing a rebate, except as authorized in section 508(a)(9)(B).

The Anti-Rebating Certification is an individual certification of the applicant/insured and agent required at the time liability is established. For the 2012 CY, this statement is non-substantive. In subsequent crop years, this certification will be substantive on the form in which liability is established for the policy, e.g., acreage reporting time. The AIP has the discretion to require this certification at other times.

[See Exh. 5].

Brian M. McSherry, CIC

My name is Brian McSherry. My wife Mary and I live in Flanagan Illinois, a small rural farming community approximately 100 miles south of Chicago. We have two sons, Michael and Brandon, who both live and work in the Chicago area.

I started my insurance career in 1979, joining the family agency. In 1981 I purchased the agency now known as the McSherry Agency, Inc. We currently have two office locations, our original office located in Flanagan Illinois and the second office located in Pontiac, Illinois. I currently have three employees two full-time and one part-time. We are a smaller personal and commercial lines agency. Our commercial lines department includes all coverage's related to farming operations including farm property, farm liability, commercial auto, workers compensation, crop hail and multi-peril crop insurance. The multi-peril crop insurance makes up a large portion of our product portfolio.

In 2001, after two years of training, I earned my "Certified Insurance Counselor" designation. This designation is earned by completing five separate courses of classroom training, including Commercial Property, Commercial Casualty, Life and Health, Personal Lines and Agency Management. This designation is only awarded to those agents that successfully pass an extensive essay exam following each segment.

Throughout the years I have served in various positions with the Independent Insurance Agents of Illinois Association. Those positions included chairman of the young agents committee, chairman of the education committee, chairman of the Trusted Choice Junior golf tournament, President of the Agents Insurance Services Board, Secretary-Treasurer of the Independent Insurance Agents of Illinois, Vice President of the Illinois Independent Insurance Agents of Illinois, President of the Independent Insurance agents of Illinois, and currently serve as national director for the Independent Insurance Agents and Brokers of America. In that capacity I also serve on the Independent Insurance Agents and Brokers of America government affairs committee and serve as current chairman of the Independent Insurance Agents and Brokers of America Crop Insurance Task Force.

I've been involved in many local community organizations, including the Flanagan Lions Club, Flanagan Development Corporation, Flanagan School District Educational Foundation, Pontiac Elks Lodge, Pontiac Elks Lodge scholarship board and the St. James Community Hospital Advisory Board.