House Committee on Agriculture
Farm Bill Audit Questionnaire

1. **Program Name**
The Federal crop insurance program is managed by the Risk Management Agency (RMA) which is under the Farm and Foreign Agricultural Services mission area of the United States Department of Agriculture.

2. **Subprograms/Department Initiatives**
None.

3. Brief History
FCIC was created in 1938, under the Federal Crop Insurance Act (Act), to carry out the crop insurance program to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl. The program was started as an experiment and was delivered by the FCIC until 1980. During the formative years of the program, participation was low and crop insurance activities were limited to major crops in the main producing areas.

The crop insurance program continued to evolve and the Federal Crop Insurance Act of 1980 expanded the program and introduced the public-private partnership whereby private insurance companies would sell and service Federal crop insurance policies reinsured by FCIC. To encourage participation in the expanded crop insurance program, the Act authorized a premium subsidy be paid on behalf of insured producers. In 1994 the Federal Crop Insurance Reform Act of 1994 was enacted, which introduced the catastrophic risk protection (CAT) level coverage. Producers did not pay a premium for CAT coverage and instead paid a small per crop, per county administrative fee. The Federal Crop Insurance Reform Act of 1994 introduced the concept of linkage within the program. Linkage required a producer to purchase crop insurance at least the CAT level of coverage in order to qualify for the benefits of another farm safety net program in an effort to increase participation and eliminate the need for competing ad hoc disaster programs. The linkage requirement was eliminated after 2 the years, though there have since been numerous “linkage” requirements for disaster assistance or other farm safety net programs. The Federal Crop Insurance Reform Act of 1994 also introduced higher subsidy rates for “buy-up” coverage (insurance coverage above the CAT level for which producers pay some portion of the premium), as well as providing authority for revenue insurance products. Further, the Federal Crop Insurance Reform Act of 1994 expanded the role of the private sector, allowing entities to participate in research and development of new insurance products and features. A process was also created to allow private entities to submit unsolicited proposals for insurance products to the FCIC Board of Directors (Board) for approval. This allowed the introduction of the first revenue products.

In 1996, the Risk Management Agency (RMA) was created to administer FCIC programs and other non-insurance-related risk management and education programs that help support U.S. Agriculture. In 2000, Congress enacted legislation that allowed private entities to be eligible for reimbursement of research, development and operating costs for their private submitted products approved by the Board. This legislation also removed restrictions on the development of insurance products for livestock; provided authority for the FCIC Board to create an expert review panel to assist the Board in evaluating new insurance products for feasibility and actuarial soundness; and significantly increased premium subsidies, by more than 50 percent, to encourage producers to purchase higher insurance coverage levels, and to make the insurance program more attractive to prospective producers.

4. Purpose/Goals

Federal crop insurance serves America's agricultural producers through effective, market-based risk management tools and solutions to strengthen the economic stability of agricultural producers and rural communities and provides world class agricultural risk management products, tools, education, and outreach.

5. Success in Meeting Programmatic Purpose/Goals

In the 2010 crop year, Federal crop insurance was available for approximately 350 commodities, in over 3,141 counties, covering all 50 States and Puerto Rico. Insured acreage in the program exceeded 256 million acres. 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 that for 2011 program liability could exceed $100 billion. Of special significance is the level of participation in specialty crops programs. Seventy-five percent of producers are participating, which compares well to the 83 percent participation levels for the major program crops. Important fruit, nut and vegetable states like California (71%), Florida (91%), and Washington (68%) each score well in Federal crop insurance program participation.

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 – without which American farmers would find it difficult to continue providing America and the world with an abundant supply of food, fiber and fuel. The crop insurance program has seen sustained growth as demonstrated by the increasing proportion of acres insured at buy up coverage levels over the last decade to a record-high of 90 percent.

The type of coverage being purchased is also shifting to the more comprehensive revenue coverage. In 2010, revenue coverage accounted for 65 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 73 percent for 2010, compared to 68 percent in 2000. Improvements to the program have been accomplished in an actuarially sound manner. 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. For example, the program's loss ratio from 1994 through 2010 has averaged about 0.82.

6. Annual Budget Authority (FY2002-FY2011) (dollars in thousands)

FY	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
A&O	$74,232	$70,248	$71,001	$71,468	$76,278	$76,658	$76,121	$77,177	$80,325	$78,842
FCIC Fund	$2,820,926	$2,910,966	$3,366,433	$2,242,167	$3,295,458	$4,379,256	$4,145,091	$6,765,663	$6,898,215	$6,992,896
Total Authority	$2,895,158	$2,981,214	$3,437,434	$2,313,635	$3,371,736	$4,455,914	$4,221,212	$6,842,840	$6,978,540	$7,071,738

The FCIC fund includes Budget Authority only. It does not include carryover balances or offsetting collections.

7. Annual Outlays (Y2002-FY2011)(dollars in thousands)

FY	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
A&O	$83,801	$75,849	$71,482	$66,739	$73,824	$79,091	$76,254	$72,799	$78,002	$82,000
FCIC Fund	$2,946,551	$3,254,184	$3,197,568	$2,883,272	$3,371,615	$3,471,225	$4,074,814	$7,888,892	$4,706,125	$6,989,000
Total Outlays	$3,030,352	$3,030,033	$3,269,050	$2,950,011	$3,445,439	$3,550,316	$4,151,068	$7,961,691	$4,784,127	$7,071,000

Outlay amounts differ from Budget Authority due to timing. The general rule of thumb for FCIC outlay spend rates (current year/past year) is 90/10 for ARPA , Delivery Expenses, and Underwriting Gains/Losses and 35/65 for Indemnities. For the A&O Account, RMA currently estimates a 90/10 split.

8. Annual Delivery Cost (FY2002-FY2011)

See attached pages from Explanatory Notes provided to the Congress in recent years as part of the President's annual budget proposal. The pages provided display information on program costs including costs associated with program delivery. Note that in each case, the earliest fiscal year shown is an actual amount and the other two years are estimates.

9. Eligibility Criteria

In general, anyone producing a crop or livestock for which premium rates have been published in the counties actuarial documents is eligible to purchase crop insurance. Basic requirements such as legal competency and being of legal majority apply. The person purchasing crop insurance must also have an insurable interest in the crop and must provide the required identification number and other required data to the agent from whom the policy was purchased.

Any farmer or rancher can become ineligible to participate in the program. Circumstances that may cause a person to become ineligible include having a delinquent debt, such as unpaid premium or failure to timely repay an indemnity that was overpaid. That person again becomes eligible when the debt is resolved. Persons who are disqualified, suspended, or debarred under the Act and applicable regulation, are ineligible for crop insurance for the period of disqualification, suspension or debarment. Any person who is convicted of violating the controlled substance provisions of the Food Security Act of 1985, as amended, is ineligible for crop insurance from the beginning of the crop year of conviction and the four subsequent consecutive crop years.

There are no carve-outs in the Federal crop insurance program.

10. Utilization (Participation) Data

	Additional	Coverage	Only				
Reinsurance Year	**# of Policies**	**Insured Acres**	**Liability (Value)**	**Premium**	**Claims Payments**	**Loss Ratio**	**Loss Cost**
2001	1.1 million	170.5 million	$30.1 billion	$2.7 billion	$2.9 billion	1.069	0.097
2002	1.1 million	176.6 million	$30.5 billion	$2.7 billion	$4 billion	1.485	0.131
2003	1.1 million	183.8 million	$34 billion	$3.2 billion	$3.2 billion	1.003	0.095
2004	1.1 million	189 million	$39.5 billion	$4 billion	$3.2 billion	0.811	0.081
2005	1.1 million	217.7 million	$37.2 billion	$3.7 billion	$2.3 billion	0.609	0.061
2006	1 million	213.7 million	$45.4 billion	$4.4 billion	$3.5 billion	0.782	0.077
2007	1 million	243.3 million	$59.8 billion	$6.3 billion	$3.4 billion	0.544	0.057
2008	1 million	242.2 million	$81.1 billion	$9.5 billion	$8.6 billion	0.909	0.107
2009	1.1 million	242.5 million	$71.6 billion	$8.6 billion	$5.2 billion	0.597	0.072
2010	1.1 million	236.2 million	$71 billion	$7.3 billion	$4.1 billion	0.565	0.058
Maximum	1.1 million	243.3 million	$81.1 billion	$9.5 billion	$8.6 billion	1.485	0.131
Minimum	1 million	170.5 million	$30.1 billion	$2.7 billion	$2.3 billion	0.544	0.057
Ten-year average	1.1 million	211.6 million	$50 billion	$5.2 billion	$4 billion	0.837	0.084

	Catastrophic	Coverage	Only				
Reinsurance Year	**# of Policies**	**Insured Acres**	**Liability (Value)**	**Premium**	**Claims Payments**	**Loss Ratio**	**Loss Cost**
2001	236,669	41 million	$6.9 billion	$247.7 million	$48.9 million	0.197	0.007
2002	208,563	38.2 mil	$6.8 billion	$229.5 million	$78.7 million	0.343	0.012
2003	175,393	33.7 million		$227 million	$44.1 million	0.194	0.007
2004	156,004	31.7 million		$241.3 million	$95 million	0.394	0.013
2005	138,464	28.1 million		$236.4 million	$81.3 million	0.344	0.012
2006	125,786	28.3 million		$261.2 million	$64.5 million	0.247	0.007
2007	120,100	28.3 million		$268.4 million	$50.6 million	0.188	0.007
2008	120,405	30 million		$332.7 million	$80.4 million	0.242	0.010
2009	93,099	22.3 million		$305 million	$59.3 million	0.194	0.008
2010	79,687	20.3 million		$262.2 million	$39.6 million	0.151	0.006
Maximum	236,669	41 million		$332.7 million	$95 million	0.394	0.013
Minimum	79,687	20.3 million		$227 million	$39.6 million	0.151	0.006
Ten-year average	145,417	30.2 million		$261.1 million	$64.2 million	0.249	0.009

11. Duplication or Overlap with Other Programs

The public-private partnership between RMA and private crop insurance companies for the delivery of subsidized crop insurance is unique. The Federal crop insurance program is different from disaster funding because farmers are contributing to the costs of the program through the payment of premium for an actuarially sound program.

12. Waste, Fraud and Abuse

Waste - The crop insurance program is currently reporting a 4.7 percent average error rate in accordance with the Improper Payments Information Act. This rate is consistent with the program's historically reported error rates of between 4 to 6 percent. While the goal is to continue to reduce crop insurance program errors, the closely related private Property and Casualty lines of insurance typically report error rates of all types, intentional and unintentional, between 15 and 20 percent. RMA recently renegotiated the Standard Reinsurance Agreement (SRA) to include targeted quality control reviews to assist in identifying and correcting individual and program errors. RMA also is completing an Information Technology Modernization project that has new built in internal controls and checks of data to identify and correct data errors before indemnities are paid. Advances in technology will continue to provide opportunities to improve the way we assign insurance guarantees and assess loss events that will continue to improve RMA's ability to limit program errors.

Fraud and Abuse - RMA is in its eleventh year of conducting annual spot checks of producers identified through congressionally authorized data mining as being anomalous when compared to their neighbors. Once identified, these producers are notified that they will be checked during the year by the Farm Service Agency (FSA). RMA has documented that this effort reverses the observed anomalous behavior resulting in a reduction of expected indemnity payments of almost $840 million to date. The 2011 SRA includes an expansion of this effort to include checks of an additional tier of producers by their insurance company.

RMA also dedicates significant resources to assisting USDA’s Office of Inspector General (OIG) in investigating and prosecuting criminal program violations and imposing administrative sanctions when indicated. Although RMA continues to believe the percentage of producers engaged in criminal behavior is relatively small, these producers create a negative impression of the program with the public and as such RMA believes the aggressive identification and prosecution of those who abuse the program is essential to maintaining program integrity. Currently, RMA is assisting OIG and the Department of Justice with identifying violations in the tobacco insurance program that includes criminal activity by a significant number of producers, agents, and loss adjusters across several states. The termination of the tobacco quota program created vulnerabilities in the tobacco marketing system that left the insurance program exposed to abuse. RMA is working to correct these vulnerabilities, while identifying those who have taken advantage of them in the interim and prosecuting and sanctioning those persons to the fullest extent of the law.

13. Effect of Administrative Pay-go

In 2005, the Office of Management and Budget released Memorandum M-05-13 (“Budget Discipline for Agency Administrative Actions”) requiring that for “any proposed discretionary agency administrative action that would increase mandatory spending, the agency must include one or more proposals for other administrative actions to be taken by the agency that would comparably reduce mandatory spending". This is commonly referred to as "pay-go."

There have been a number of Administrative Pay-go actions in the crop insurance program. For example, last year's renegotiation of the Standard Reinsurance Agreement generated a significant amount of budgetary savings, $2 billion of which was applied to Administrative Pay-go (the remainder was applied to debt reduction). Conversely, a number of crop insurance products have been added or expanded, like the Pasture, Rangeland, and Forage product – a critical product for livestock producers – using Administrative Pay-go offsets.

RISK MANAGEMENT AGENCY
Full Cost By Strategic Objective

	FY 2007 ($000)	FY 2008 ($000)	FY 2009 ($000)
Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers			
PROGRAM / PROGRAM ITEMS			
Federal Crop Insurance Corporation Fund			
Research and Development Program	40,000	40,000	40,000
Pilot Programs	21,000	21,000	21,000
Policy Consideration and Implementation	3,500	3,500	3,500
Premium Program	2,727,720	3,846,559	4,100,446
A&O Expenses/Delivery Expenses	1,110,750	1,479,566	1,471,876
Risk Management Assistance Program	5,000	5,000	5,000
Excess Crop Losses	466,286	(1,250,534)	936,123
Total	$ 4,374,256	$ 4,145,091	$ 6,577,945
Administrative and Operating Expenses			
Administrative Costs (direct)	$ 58,369	$ 62,332	$ 63,461
Information Technology	17,075	13,716	13,716
Total	$ 75,444	$ 76,048	$ 77,177
Performance measure: Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions)			
Performance target:	$50.7	$53.7	$54.8
Unit Cost:	N/A	N/A	N/A
TOTAL PROGRAM	**$ 4,449,700**	**$ 4,221,139**	**$ 6,655,122**
TOTAL FTEs	**488**	**553**	**553**

RISK MANAGEMENT AGENCY
Full Cost By Strategic Objective

Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers

PROGRAM	PROGRAM ITEMS	FY 2008 ($000)	FY 2009 ($000)	FY 2010 ($000)
Federal Crop Insurance Corporation Fund				
	Agricultural Risk Protection Act Initiatives	42,791	68,500	68,500
	Premium Program	4,377,350	6,892,983	8,837,530
	A&O Expenses/Delivery Expenses	1,994,615	1,621,679	1,545,767
	Risk Management Assistance Program	5,000	6,000	6,000
	Excess Crop Losses	1,577,759	967,415	914,732
	Total	$ 7,997,515	$ 9,556,577	$ 11,372,529
Administrative and Operating Expenses				
	Administrative Costs (direct)	$ 61,863	$ 63,606	$ 66,754
	Information Technology	13,303	13,571	13,571
	Total	$ 75,166	$ 77,177	$ 80,325
	Performance measure: Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions)			
	Performance target:	$53.7	$54.8	$50.7
	Unit Cost:	N/A	N/A	N/A
TOTAL PROGRAM		**$ 8,072,681**	**$ 9,633,754**	**$ 11,452,854**
TOTAL FTEs		**480**	**553**	**568**

RISK MANAGEMENT AGENCY
Summary of Budget and Performance
Full Cost By Department Strategic Goal

Department Strategic Goal: USDA will assist rural communities to create prosperity so they are self sustaining and economically thriving.

PROGRAM	PROGRAM ITEMS	FY 2009 AMOUNT ($000)	FY 2010 AMOUNT ($000)	FY 2011 AMOUNT ($000)
Federal Crop Insurance Corporation Fund				
	Agricultural Risk Protection Act Initiatives	47,371	68,500	68,500
	Premium Program	8,416,173	7,669,250	9,040,243
	A&O Expenses/Delivery Expenses	1,601,807	1,567,145	1,683,633
	Risk Management Assistance Program	6,000	6,000	6,000
	Excess Crop Losses	1,962,597	1,167,759	1,204,771
	Projected Savings from Negotiations of SRA	-	-	-782,000
	Total Costs	12,033,948	10,478,654	11,221,147
Administrative and Operating Expenses				
	Administrative Costs (direct)	63,606	66,754	67,493
	Information Technology	13,571	13,571	15,571
	Total Costs	77,177	80,325	83,064
	FTEs	481	568	568
	Performance measure: Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions)			
	BY Performance	$53.7	$54.8	$50.7
	Cost per measure (unit cost)	N/A	N/A	N/A
	Total for Department Strategic Goal 1			
Total Costs for Department Strategic Goal		**12,111,125**	**10,558,979**	**11,304,211**
	FTEs	**481**	**568**	**568**

RISK MANAGEMENT AGENCY
Full Cost By Department Strategic Goal

USDA Strategic Goal: Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving

PROGRAM / PROGRAM ITEMS	FY 2010	FY 2011	FY 2012
Federal Crop Insurance Corporation Fund (FCIC)			
Premium Subsidy	4,089,811	4,600,900	3,082,875
Delivery Expenses	1,567,145	1,325,000	-
Underwriting Gains	1,167,759	999,496	-
Federal Crop Insurance Act Initiatives	74,500	68,500	59,500
Other Authority Withdrawn	(2,352,096)	-	-
Total Costs	**$ 4,547,119**	**$ 6,993,896**	**$ 3,142,375**
Administrative and Operating Expenses:			
Administrative Costs (direct)	66,045	66,045	66,045
Information Technology	14,280	14,280	16,280
Total Costs	**$ 80,325**	**$ 80,325**	**$ 82,325**
FTEs	501	568	568
Performance Measure: The normalized value of BY Performance	Dollars	Dollars	Dollars
Cost per measure (unit cost)	$51.9	$52.4	$52.9
Total for Strategic GOAL			
Total Costs for Priority (program, direct, indirect)	**$ 4,627,444**	**$ 7,074,221**	**$ 3,224,700**
FTEs	501	568	568