



*Independent Insurance Agents
& Brokers of America, Inc.*

**STATEMENT OF JOHN DALTON
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA
BEFORE THE HOUSE AGRICULTURE SUBCOMMITTEE ON
GENERAL FARM COMMODITIES AND RISK MANAGEMENT
REGARDING THE STATE OF THE
FEDERAL CROP INSURANCE PROGRAM**

July 22, 2010

Good morning Chairman Boswell, Ranking Member Moran and members of the Subcommittee. My name is John Dalton and I am pleased to be here today on behalf of the Independent Insurance Agents & Brokers of America (IIABA). Thank you for the opportunity to provide our association's perspective on the state of the crop insurance industry. I am the President of Midwest Insurance Associates LLC and the Agri-Land Insurance Agency in Council Bluffs, Iowa and a member of the Big "I" Crop Insurance Task Force.

The Big "I" is the nation's oldest and largest national trade association of independent insurance agents and represents a network of more than 300,000 agents and agency employees

nationwide. 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 licensed support-staff, who help in servicing the products as well as the writing agent. 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.

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. Crop insurance agents are proud to be partners in the successful expansion of this invaluable program for farmers, and we appreciate the opportunity to provide our perspective today on the important role independent agent's play in the sale and delivery of the Federal Crop Insurance Program (FCIP).

Standard Reinsurance Agreement

I would like to begin by thanking you for your leadership during this difficult economic time, and I would like to take this opportunity to express our concerns, as independent agents, regarding components of the 2011 SRA renegotiation as outlined in the third draft released on June 30, 2010. According to the new SRA, there will be a hard cap of \$1.35 billion (or 18%) for

Administrative and Operating (A&O) reimbursements to crop insurance companies. Companies will be further forced to cap agent commissions at 80% of the total A&O, per state. A total of 100% of the A&O will be available to agents if the company chooses to offer profit sharing.

The Big “I” strongly opposes the new SRA’s commission cap provisions. The current SRA represents the first time that RMA, or any federal agency, has attempted to regulate crop insurance commissions rather than allow the marketplace to determine the appropriate commission rate. This also represents the first time that the federal government has intervened in the agent-company relationship. For more than 20 years, insurance agents have worked side by side with crop insurance companies and the federal government to increase the use of crop insurance across America. Crop insurance is a proven risk management tool that protects farmers against unforeseen calamities – and protects the federal government from even more disaster aid than it already hands out. Because of the work of insurance agents, the crop insurance program has grown from relative obscurity to the widely used and successful program we are discussing today.

Statistics for the 2008 crop year, as reported by the Risk Management Agency (RMA), show how widely the program is accepted and utilized by farmers and how effectively and efficiently it serves their risk management and cash flow needs. For the 2008 crop year, the program provided coverage on more than 272 million acres across all 50 states, which is more than 80% of the insurable acreage, with liability protection totaling almost \$90 billion. The Big “I” is deeply disappointed that the RMA has chosen to reward the success of insurance agents by thrusting itself into the agent-company relationship and instituting an unreasonable cap on agents’ earnings.

RMA has set out to determine agents' earning ability – earnings that agents use to raise their families, stimulate rural economies, and hire and pay workers – in an agreement in which the agents have no voice or legal ability to represent themselves. In a time of great economic strain, where rural economies are struggling and our best and brightest are migrating to more urban centers looking for better job opportunities, this proposal seeks to protect the interests of big businesses and impose caps on main street workers. It is difficult for agents to understand how an Administration, that has repeatedly professed support to small businesses and the regeneration rural economies, has chosen to now turn their backs on main street America.

The proposed 80% commission cap does not save the government any money and only serves to further compromise the crop insurance program and its intended beneficiaries – farmers and ranchers. 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. These agents are the very people who have worked so hard to build the success of this program, revitalize rural communities, and build strong foundations for new and existing farmers.

In addition, we all know that commodity prices are cyclical, and commodities have a long and uninterrupted history of moving both up and down. The A&O subsidy for 2010 in Iowa will be significantly down compared to 2009 because of lower commodity prices and lower commodity volatilities. The proposed changes to the delivery cost system concern us because these changes have a disproportionate effect on the Corn Belt states. Our large agriculture economy employs thousands of workers and creates thousands of sustainable jobs. The number of agents and companies writing in the Midwest make this program highly competitive.

According to the National Crop Insurance Services (NCIS), “agent commissions were cut more substantially in the Corn Belt areas, specifically the Midwest, than in other areas.” Furthermore, NCIS noted that “they are rebalancing the program by making it less profitable in the Corn Belt, and more profitable in other areas.” As a result, jeopardizing the solid structure of the FCIP may have far reaching and unintended consequences for a state like Iowa because its economy depends so heavily on agriculture. This rebalancing will most likely have little effect on economies that do not rely as heavily on the crop insurance business. Agents have acted in a responsible and prudent manner by working to enhance and deliver the crop program to farmers and ranchers all across the country, especially in places where demand is the highest.

The RMA’s stated reason for instituting this commission cap is to protect companies from themselves, and they specifically cite the 2002 failure of the American Growers Insurance Company (American Growers) as a justification for the agent commission cap. However, common sense would suggest that there may be additional factors associated with the failure of this company. It is widely known that American Growers was overly reliant on risky insurance products, specifically the Crop Revenue Coverage Plus policy (CRC PLUS) when they became insolvent. CRC PLUS, developed by American Growers, allowed farmers to “buy up” the spring price for their crops. In most cases, the farmer could buy more revenue coverage at the 75% level and at a lesser premium than buying an increased level of coverage at the lower spring price. For this reason, farmers in the Midwest lined up to buy corn and soybeans at the increased price, and farmers in the South bought up CRC PLUS policies for cotton and rice. American Growers soon lost track of the added liability generated by the additional price option that had been purchased on the commodities. When all of the paperwork for all of the new policies was finally received by the company, it was too late to purchase reinsurance for the additional

coverage and American Growers had no choice but to accept the additional liability. The poor crop year, combined with the failure of the new CRC Plus policy program caused the company to collapse. American Growers received no more or no less A&O than the other crop companies at this time, yet they were the only company to fail.

Furthermore, even if the RMA truly is concerned about the long term viability of crop insurance companies, there are other less intrusive methods that RMA could have taken short of these unprecedented commission caps that are very damaging to small businesses in an extremely difficult economy. For example, the RMA could have easily raised capital reserve requirements and solvency standards to ensure that companies had enough available reserves to handle bad insurance years. Instead of taking this logical step, the RMA instead chose a far more controversial and more damaging path. Quite simply, instead of protecting companies by forcing them to be responsible and ready to protect themselves, RMA chose to protect insurance companies by directly harming agents. This is why the Big "I" firmly believes that RMA has clearly chosen the interests of large insurance companies over those of small business owners.

I would also like to voice the Big "I's" strong objection to the "covenant not to sue" provision in the new SRA. This new provision, which is meant to apply to both insurance companies and agents, would prohibit agents and companies from filing a lawsuit against the RMA over the A&O cuts to the program. Insurance agents are not parties to the SRA and should not be forced by such an agreement to waive their legal rights. The practical effect of this covenant not to sue is that agents cannot negotiate with RMA on 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 essentially saying that agents are not allowed to have any voice

whatsoever on an issue that directly affects their livelihood, and are unable to seek legal redress if unfairly harmed.

Finally, we believe that the RMA may have overstepped its legal authority by instituting both the agent commission cap and the “covenant not to sue.” Insurance agents, by law, are not allowed to be parties to the SRA negotiations and are therefore unable to formally negotiate these provisions, even though they apply directly to insurance agents. Additionally, we have found no explicit authority which gives RMA the ability to regulate commissions. The Big “I” is strongly opposed to the RMA’s overreaching and will pursue any and all avenues to fighting these provisions.

Agent Workload and Program Complexity

Unlike other lines of insurance sales, a crop agent’s responsibilities require a much more hands-on approach, which invariably increases the threshold for errors and omissions (E&O) exposure (Professional Liability). On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 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 him 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 preceding goes into writing the policy – and does not even factor in the consequences of a potential loss, which occurs more often than any other line of insurance. Compared to the sale of life, farmowners, homeowner's, or auto insurance, the sale of crop insurance is indeed extremely complex and challenging.

Crop Insurance - an Indispensable Financing Tool

The Federal Crop Insurance Program is an indispensable financing tool. Without crop insurance, many farmers would be unable to obtain financing. 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. Many younger farmers with less collateral would be unable to obtain financing without crop insurance.

Farmers understand more and more that crop insurance is another cost of doing business. However, 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. Protection provided by the program gives a lender much more confidence in extending credit.

Conclusion

The Big “I” thanks the Committee for allowing us to present this written testimony at today’s hearing, and we would be happy to work with this Committee at any time to further explain the vital role that crop insurance agents play in the FCIP. The Big “I” strongly opposes the new SRA and would like to work with Congress on a legislative fix to the damaging provisions in this new agreement.

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: John F. DALTON
2. Business Address: 2352 Railroad Highway
Council Bluffs, Iowa 51503
3. Business Phone Number: 1-712-325-0011
4. Organization you represent: Midwest Insurance Associates / Agri-Land Insurance Agency
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
39 years Experience in the Insurance Industry
12 years Insurance company experience / 27 years
As independent Agent. Both company and Agency experience specialize
in Farm/Agriculture and Crop insurance.
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
Midwest Division Manager for Crop Insurance company
Instructor at various Crop Insurance training schools
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
Board member of Iowa Independent Agents Association
member of Crop Insurance Task Force Independent
Insurance Agents National Committee

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: John DALTON
Address: 16749 State Orchard Reno Council Bluffs, Iowa
51503
Telephone: 712 325-0270
Organization you represent (if any): Cap Insurance Task Force
NATIONAL Independent Agencies Association

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: NONE APPLICABLE Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: NONE KNOWN Amount: _____

Please check here if this form is NOT applicable to you: X

Signature: John Dalton

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.