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Committee on Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Brandon Willis, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the 2014 Budget for the Risk Management Agency (RMA). The Federal crop insurance program is an integral part of our Nation's farm safety net. Our program is especially important during years in which there are natural disasters. By design, the program uses more resources where there are conditions that contribute to crop losses. Last year, spring brought frosts that decimated the fruit industry in the Northeast, and a prolonged and widespread drought across the country left many farmers with significantly reduced yields, contributing to one of the worst disaster years in a generation. I commend our private partners for their success in working with RMA to pay claims quickly. We strive to maintain and improve current insurance products to ensure all of America's farmers and ranchers have the best protection possible.

Budget restraints require government agencies ensure limited resources are used prudently, and I assure you that RMA will deliver our program with the efficiency that America's farmers and ranchers expect. It is in years like 2012 that we can clearly see the success of modern crop insurance as a safety net. The Federal crop insurance program was able to provide quick and effective assistance to struggling producers, without making them wait for supplemental disaster appropriations. We cannot control the weather, but we can control the availability of strong risk management tools to ensure that producers have the support they need to stay in business when catastrophic disaster strikes.

RMA has worked hard to set in place preventive measures to avoid furloughs. However, as we seek to expand crop insurance participation to cover current gaps and to maintain our current coverage, reductions to discretionary resources threaten to delay new program development and compliance efforts. I look forward to working with you to find funding solutions that will improve program performance and protect taxpayer resources.

RMA has three priorities to ensure that producers can rely on crop insurance as their safety net for years to come in a way that is financially sound. First, we will continue and intensify our focus on program integrity. Our data mining program has been credited with preempting millions of dollars in improper payments, and we are looking at new ways to use data mining to protect taxpayer resources. Second, RMA will work to expand crop insurance where low participation puts producers at financial risk. RMA has made great strides in coverage over the last two decades. Closing coverage gaps even further will help make sure that one unpredictable weather crisis will not undo the work of generations. And thirdly, we will work to educate the public about crop insurance. All Americans, urban and rural alike, benefit from a strong and stable domestic agricultural economy.

In addition, RMA continues to evaluate the crop insurance program for efficiencies to help support funding for these priorities. The ultimate goal is to use the taxpayers' dollars to provide what we need to sustain protection within the farm safety net. Crop insurance is one of the foundations of our farm safety net, but due to increased commodity prices, costs have increased significantly in recent years. RMA strives to continuously offer ways to reduce unnecessary spending, even as we enhance our program within our priorities.

STATUS OF THE FEDERAL CROP INSURANCE PROGRAM

The Federal crop insurance program helps the men and women who produce America's agricultural products to manage risk in a business that is exposed to extreme fluctuations in weather and markets. For 2012, with approximately 1.1 million policies on 282 million acres, the program provided nearly $117 billion in risk protection. Of the $11.1 billion in total premiums, USDA provided $7.0 billion for farmers, and farmers themselves paid $4.1 billion. To date, USDA and our private partners have paid out $16.1 billion in claims for lost revenue or damaged crops. In addition, RMA awarded $12.6 million in risk management education partnership agreements during 2012, which directly supported women, veterans, small and limited resource farmers and ranchers, and 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" higher levels of coverage ranging up to 85 percent, and catastrophic coverage, which provides a very low level of coverage, 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.

The Federal crop insurance program has seen an increasing proportion of acres insured at buy up levels over the last decade. Purchases of this type of coverage are also shifting to the more comprehensive revenue coverage. In 2012, 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 2012, compared to 68 percent in 2000. 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.

In 2012, Federal crop insurance was available for approximately 130 crops and types of livestock, 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 2012. Many banks now require crop insurance coverage in order to approve operating loans to producers. Federal crop insurance has become integral to financial planning for many farmers and is especially important in these times of economic uncertainty coupled with severe weather conditions. 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 worked with private entities under the authority provided in section 508(h) of the Federal Crop Insurance Act to expand the availability of crop insurance coverage to a more agriculturally diverse population. Over the past two years, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) has approved the following 508(h) product submissions:

- Specialty-Trait Soybeans to allow producers of food grade soybeans to insure 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;
- Trend Actual Production History (Trend-APH) is an option for growers to adjust their APH to account for long-term yield trends to better reflect their true productive potential;
- Dry Bean Revenue and Dry Pea Revenue Endorsements to the APH polices;
- High Risk Alternate Coverage Endorsement allows producers to insure their high risk land at a buy-up coverage level which is less than the coverage level on their non-high risk land for corn, soybean, wheat, and grain sorghum;
- Downed Rice Endorsement provides an extra indemnity to cover additional harvest costs incurred when rice falls over (is downed) due to wind or rain;
- APH-Olive for California olives;
- Specialty Canola to reflect higher contract pricing for the Spring High Oleic Canola type;
- Specialty Corn to reflect higher contract pricing for the Blue Corn and High Amylase Corn types;
- Significant revisions to Livestock Risk Protection for Lamb; and
- Camelina, which is used to make biofuels.

In addition to the new products, RMA has contracted to provide new insurance programs for Navel Oranges and Strawberries, as well as Pistachios, Grass Seed, and Sesame. At the request of growers, RMA expanded silage sorghum insurance, and made changes to the Florida Citrus Fruit, Pecan Revenue and Peach policy provisions to better serve producers.

RMA is also working to better incorporate precision agriculture into Federal crop insurance procedures by allowing producers to use their acreage and yield monitor records to report production history and assist in loss adjustment determinations.

OVERVIEW OF THE 2014 RMA BUDGET PROPOSAL

The 2014 RMA budget proposal for the discretionary Salaries and Expenses Account is $71.5 million and supports approximately 455 employees, the lowest level ever. Over the last two years RMA has pursued efficiencies and reductions in personnel, travel and other administrative expenses. We will continue to rigorously manage our discretionary resources.

The mandatory FCIC Fund appropriation request reflects a modest decrease of $716 million. For the Federal crop insurance program to support risk protection coverage of $94 billion in 2014, a funding level of $9.5 billion is required.

The 2014 Budget reflects the Administration's deficit reduction proposals, which includes five crop insurance proposals that will save an estimated $11.7 billion over 10 years, while making the program stronger for the future.

The proposal focuses on five elements:

The Budget proposes to save about $1.2 billion over 10 years by establishing a reasonable rate of return to crop insurance companies. A study commissioned by USDA revealed that the reasonable rate of return should be around 12 percent. Yet the actual rate of return has exceeded 12 percent, from a ten-year low of 14 percent in 2008 to a high of 34 percent in 2009. Even with a projected negative rate of return in 2012 of 15 percent due to high commodity prices and poor growing conditions, the 10-year average is 21 percent, a total of over $10 billion in underwriting gains. Setting a 12 percent rate of return target will provide a reasonable profit incentive for crop insurance companies to continue their quality of service and save significant amounts of taxpayer supported funding.

The 2014 Budget further proposes to lower the cap on payments to insurance companies for administrative expenses from about $1.3 billion annually to $0.9 billion, saving $2.8 billion over 10 years. Though a cap on these expenses was introduced in 2011, the capped amount is still much greater than the amount paid to companies prior to the increase in commodity prices. The proposed amounts with the reduced cap will still provide adequate rates to insurance companies and agents to assure effective delivery of the program to producers.

The Budget also proposes to reduce the premium for catastrophic policies to better reflect historical performance, saving about $292 million over 10 years. This change will result in a premium rate that more accurately reflects actual program performance. Farmers are not impacted by the change.

The Budget proposes to lower the producer premium assistance by three percentage points for policies where the Government assists with more than 50 percent of the premium, saving $4.2 billion over 10 years. Producers with policies that have premium assistance at 50 percent or less would not be affected by the change, and even with the reduction, the Government will still assist with around 60 percent of the premium, on average. Premium assistance levels have been steadily increased to encourage greater participation, and today can reach as high as 80 percent.

Lastly, the 2014 Budget will reduce the premium assistance by two percentage points for revenue coverage that provides protection for upward price movements at harvest time. Even with this reduction, the Government will still assist with at least half of the premium cost for the majority of producers purchasing this coverage, and it will not have a significant impact on producers' out of pocket cost for this type of coverage. For example, for a producer purchasing the 85 percent coverage level with basic units, premium assistance will be reduced from 38 percent to 36 percent, or 2 cents per dollar of the premium. This proposal saves about $3.2 billion over a ten-year period.

RECENT KEY ACCOMPLISHMENTS

Drought Response. I would like to take a moment to praise the work of the RMA staff and crop insurance companies across the United States for their tremendous efforts in responding to our customers by providing over $16 billion in indemnity payments for crop and livestock losses resulting from the drought. Through their combined efforts, appraisals and claims adjustments were made in a timely manner, indemnities were promptly paid, and farmers were able to get through the process smoothly despite a record number of claims. The manner in which these difficult circumstances were handled is a testament to the public-private partnership that delivers the Federal crop insurance program.

Clean Audit Opinion. A Clean Audit Opinion was received by RMA and the FCIC for fiscal years 2011 and 2012 and reported to the Office of the Inspector General from independent auditors. This report contains an unqualified opinion on the financial statement as well as an assessment of RMA's internal controls over financial reporting and compliance with laws and regulations.

Premium Rating. As part of its statutory responsibilities for maintaining an actuarially sound program, RMA continues to routinely review and make determinations for fair, equitable, and actuarially sound premium rates. The practice of periodically updating premium rates is consistent with sound actuarial principles to assure the best estimate of premium dollars needed to pay future anticipated losses is achieved, but also to ensure equity for producers and that premium rates are not excessive. Premium rate revisions have been made for many program crops in 2012 and 2013, and will continue as a normal course of business for other similar crops into the future.

The Acreage Crop Reporting and Streamlining Initiative (ACRSI). Representatives from RMA, Farm Service Agency, Natural Resources Conservation Service, and the National Agricultural Statistics Service continue to work towards simplifying and standardizing the crop data, definitions, farm location, producer entity types, acreage reporting process and dates, along with other often used participation information across various USDA programs. These efforts have included development of 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 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 with only a few exceptions. As the agencies continue to make strides in this initiative, the long term benefits for USDA and outside parties lead to greater efficiencies, transparency and overall program integrity and savings.

CONCLUSION

I am pleased to report that in 2012 crop insurance functioned as intended by providing timely assistance to producers following a major natural disaster. This assistance did not make them whole nor did it provide these producers with the income they would have earned had their crops not been destroyed, but it helped producers stay in business another year. It also benefited those outside of agriculture by adding stability to lenders and businesses. It will benefit all consumers in the long run by providing the stability that allows America's producers to continue to invest in their farms and ranches so that they can continue to be the most efficient producers in the world. Again, thank you for inviting us here today and I look forward to working with you.

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