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House Subcommittee on Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Ross J. Davidson, Jr., Administrator
before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies
March 3, 2005

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year (FY) 2006 budget for the Risk Management Agency (RMA). The Federal Crop Insurance Program plays an important role in assisting farmers to manage financial risks associated with yield and revenue shortfalls due to bad weather or other natural disasters. RMA continues to evaluate and provide new products and to promote the adoption of crop insurance as a risk management tool so that the Government can further reduce the need for ad-hoc disaster payments to the agriculture community. In 2006, current projections are that the program is expected to provide producers with more than $41 billion in protection on approximately 220 million acres through about 1.2 million policies.

The growth and effectiveness of the Crop Insurance Program is dependent on a reliable delivery system, insurance products that meet the needs of producers, investment in information technology to ensure the delivery system is timely, accurate and dependable, and adequate funding to support compliance and program integrity, product evaluation, maintenance and administration, and new product development.

To meet Crop Insurance Program requirements in FY 2006, RMA has requested a budget that will provide the necessary funding to continue the growth of the program and ensure its effectiveness to meet the agricultural community crop insurance requirements and assure fiscal responsibility in the application of taxpayer's dollars. RMA's total FY 2006 budget request is $3.3 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $3,162,979,000 and for the Administrative and Operating Expenses, the request is $87,806,000.

FCIC FUND

The FY 2006 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse the private sector for expenses incurred in delivering insurance to farmers and ranchers, to provide premium subsidies to make crop insurance affordable, and to encourage the purchase of higher levels of protection. Of the total amount requested for FY 2006, 67 percent is slated for premium subsidies. The current estimate of funding requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes $2.2 billion for Premium Subsidy, $781.4 million for Delivery Expenses, $137.5 million for estimated excess losses based on an overall projected loss ratio of 1.075, and $78.1 million for Agricultural Risk Protection Act of 2000 (ARPA) activities which includes $3.6 million to continue funding of Program Integrity initiatives under a General Provision in the 2006 Budget. ARPA provided RMA with mandatory funding to implement data mining and data warehousing to improve compliance and integrity in the crop insurance program. We estimate, in the first year of operation, data mining helped prevent nearly $94 million in improper payments and helped recover approximately $35 million in improper indemnities. The authority to use mandatory funds for data mining expires in FY 2005. Therefore, the 2006 Budget includes language to provide $3.6 million to continue data mining and data warehousing activities.

To strengthen crop insurance, promote program expansion, and limit ad-hoc disaster payments, the 2006 Budget includes a proposal for legislation to take effect in 2007 that requires those that receive direct farm payments to purchase crop insurance. The proposal requires farmers growing program crops who receive farm program benefits to purchase insurance protection at a 50 percent, or higher additional coverage level, of their expected market value, or lose their farm program benefits. This change ensures a farmer's loss in a disaster will not be greater than 50 percent. This proposal will further reduce premium subsidies to crop insurance policyholders, as well as subsidies in total to the participating insurance companies. These changes will encourage greater personal responsibility of those who buy crop insurance to pay for their risk management tools and will encourage the companies to deliver crop insurance more efficiently. This Budget proposal is estimated to realize $140 million in savings to the crop insurance program beginning in 2007. The increased self-reliance encouraged by this proposal and the linkage of the availability of crop insurance to farm program payments are intended to enhance the operating efficiency of the program and reduce the need for ad-hoc disaster payments.

This proposal is expected to be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's FY 2006 request of $87.8 million for Administrative and Operating Expenses represents an increase of about $16.3 million from FY 2005. This budget supports an increase for information technology (IT) initiatives of $12.2 million.

RMA's corporate IT systems need updating and other enhancements to take advantage of the latest technology and to ensure the IT component of the delivery system is reliable, accurate, and accessible. Billions of dollars in indemnity payments, premium subsidy, producer-paid premiums, and administrative reimbursement payments pass through this antiquated IT system each year. Therefore, I am duty-bound to continue to request increases in IT funding because the current IT infrastructure is long past its life cycle and is increasingly costly to run, cumbersome to maintain; and makes it difficult to ensure the security mandated by federal law. The Agency's IT infrastructure supports the crop insurance program's business operations at the national and local levels, provides risk management products to producers nationwide and is the basis for validating, receiving and remitting reinsurance subsidy and other payments to private companies reinsured by the FCIC. RMA is using system and database designs originally developed in 1994. There have been few hardware and software upgrades since then, but the program has grown and evolved dramatically in the timeframe, and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. As stated in previous testimonies, without adequate funding of the IT requirements, the Agency cannot safely sustain additional IT changes required by new product development or changes in existing products. Future program expansion will increase the risk of system failure and possible inability to handle day-to-day processing of applications and indemnity payments.

Also included in the 2006 Budget is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is, again, requesting funds to establish a systematic process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure effective internal and management controls are in place and operating for each reinsured company's business operations.

The 2006 Budget requests $1.8 million to support an increase of 17 staff years. This will raise RMA's employment ceiling from 568 to 585. A requested increase of 15 staff years is included to support the increased workload for the Compliance function. The additional staff years will provide the Compliance function the necessary support to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to establish a systematic process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. RMA's studies suggest that additional resources in this area would provide a minimum of four dollars in reduced fraud cost for every dollar spent. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

In addition, 2 staff years are requested for the Office of Insurance Services to support good farming practice determinations and to support the process of evaluating claims resulting from questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of good farming practices. The Regional Offices of RMA's Insurance Services Division are in a unique position by virtue of their background in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of managing the process by which good farming practices determinations are made. RMA data indicate assessments are infrequently made for uninsured causes of loss against a producer for failure to follow good farming practices. With approved insurance providers operating in an environment of risk sharing, there is a tremendous need for support and incentives for increased quality of loss adjustment, particularly in the good farming practices area to ensure that payments for losses are consistent with the requirements of Federal Crop Insurance Act. Again, it is expected the additional staffing in this area will be more than paid for by ensuring that loss payments are made in accordance with the requirement that good farming practices be used.

Lastly, an increase of $1.3 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

PROGRAM MANAGEMENT

Now, I would like to provide an update on some of our key initiatives and products:

- FCIC Board Activities
- Standard Reinsurance Agreement
- Pilot Programs
- Product Development and Non-Insurance Risk Management Tools
- Education and Outreach Program
- Agricultural Management Assistance
- Comprehensive Information Management System
- Program Integrity
- Other Initiatives

Under the direction of the FCIC Board of Directors (Board), RMA continues to promote an agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against waste, fraud and abuse within the program.

Through the private sector delivery system in crop year 2004, RMA provided approximately $46.7 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately $3.1 billion. The participation rate for major program crops was approximately 83 percent. RMA continues to improve and update the terms and conditions of all crop insurance policies to better clarify and define insurance protection and the duties and responsibilities of the policyholder and insurance providers. The Board actions to accomplish program expansion have been somewhat restricted by budget constraints affecting available IT resources and additional staffing required to meet new administrative and program requirements brought on by ARPA. Given this constraint, within the funding appropriated for FY 2004, the Board considered 44 action items during nine (9) meetings. There were six (6) new program submissions and 19 program modifications to existing insurance products. For example, the Board authorized the expansion of the Adjusted Gross Revenue – Lite (AGR-Lite) plan of insurance to all counties in Alaska, Idaho, Oregon, Washington State and North Carolina beginning with the 2005 crop year. Also, the Board approved the implementation of the Silage Sorghum Pilot and the Sugar Beet Stage Removal Option Pilot.

Standard Reinsurance Agreement (SRA)

The new SRA has been put in place, effective for the 2005 crop year. Key changes included a lowering of the A&O expense reimbursement, which will be implemented over the 2005 and 2006 reinsurance years. In addition, RMA has tightened the monitoring of SRA holders with respect to financial solvency and is strengthening ties with state regulators and the National Association of Insurance Commissioners (NAIC).

It should also be noted that, for reinsurance year 2005, RMA approved three (3) new SRA holders, bringing the current number of reinsured companies to 16. Thus, 2005 has seen an increase in the insurance writing capacity of the Federal crop insurance program.

Pilot Programs

For crop year 2005, RMA has 36 pilot programs being offered. A list of those pilots programs is attached to my testimony (Exhibit 1). As these programs gain experience, RMA conducts evaluations to determine whether they may be converted to permanent programs and offered in counties where the crop is routinely grown. During 2004, RMA completed evaluations on seven (7) pilot programs including: cabbage, crambe, cultivated wild rice, mint, mustard, Group Risk Plan (GRP), rangeland and sweet potatoes. After consideration by the FCIC Board, cabbage, cultivated wild rice, mint and mustard pilots were approved for conversion to permanent programs. The Board directed RMA to revise the GRP, rangeland and sweet potato programs, which has been done, and both were approved as new pilot programs for the 2005 crop year. In addition, RMA currently is contracting for an evaluation of the Adjusted Gross Revenue pilot program.

Product Development and Non-Insurance Risk Management Tools

During FY 2004, RMA awarded over $12 million in contracts to further program goals of expanding the number of crop insurance tools available to growers in the United States. Many of these contracts are directed at specialty crops which supports one of RMA's top priorities to develop effective risk management products for pasture, rangeland, and forage. In January 2004, RMA released a contract for research and development for pasture, rangeland, and forge, with the aim of serving the vital needs of livestock producers. RMA awarded four (4) contracts to develop new approaches in various areas of the country to address this potential market.

The contracts encourage use of new and innovative technology, including a satellite based vegetative index; a satellite-based remote sensing imagery that will describe the seasonal growth dynamics of vegetation; and the use of a seasonal growth constrained rainfall index based on a combination of a weighted warm-season/cool-season indexing periods and the National Oceanic and Atmospheric Administration rainfall data system. These programs are targeted for Board consideration in 2005 and 2006, and potential availability for the 2006 and 2007 crop years.

Also, RMA has several active contracts underway which are focused on providing new crop insurance programs for some of the most significant non-insured specialty crops. Some of these include a new program for Florida Fruit Trees; a Christmas tree program feasibility study; development for fresh vegetables including asparagus, broccoli, carrots, cauliflower, celery, garlic, artichoke, lettuce-head, lettuce-leaf, lettuce-romaine, and spinach; Hawaii Tropical Fruits and Trees development is currently under consideration by the FCIC Board; feasibility of a revenue maple syrup program; a study by USDA's Economic Research Service evaluating the unique risks of the organic industry; research to determine the potential for development of a risk management tool for producers of crops subject to quarantine restrictions by a state or Federal agency; and research into the feasibility of developing a crop insurance program for Small Value Crops with an annual value of less than $50 million.

These are just a few of the product development initiatives underway to expand and improve the risk management tools for American agricultural producers.

Education and Outreach Program

For our educational efforts in 2004, a total of $4.5 million in cooperative agreements were established with state departments of agriculture, universities and non-profit organizations to benefit states that have been historically underserved in the Crop Insurance Program. Crop insurance education will be delivered to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. These cooperative agreements will expand available risk management information; promote risk management education opportunities, inform agribusiness leaders; increase emphasis on risk management; and deliver training on risk management to producers with emphasis on reaching small farms.

Additional education efforts were dedicated to reaching producers of specialty crops. A total of 41 partnership agreements were established at a cost of $5.3 million in 2004. These agreements will provide outreach to specialty crop producers to broaden their risk management education.

Also, outreach efforts were directed to providing risk management technical assistance to women, small and limited resource farmers, and ranchers. A total of 60 projects were funded in 2004 at a cost of $5.2 million.

Agricultural Management Assistance

In 2004, RMA provided $4.2 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted states. The primary goal of the program was to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to insure. In 2004, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

Overall, in the targeted states RMA has seen an increase in policies earning premium of about 7 percent. In addition, RMA estimates that the average coverage level elected by most targeted states is 70 percent, in contrast to 65 percent, for those states without a financial assistance program.

Comprehensive Information Management System

RMA is actively working on a project to implement Section 10706 of the 2002 Farm Bill to assist with the development of a Comprehensive Information Management System (CIMS) which will simplify and improve the storage and access to data on programs administrated by RMA and the Farm Service Agency (FSA). This project will provide a management information system that allows RMA, FSA and other USDA entities and insurance providers to process, share and report on approved common information.

The CIMS will be designed to: improve access by agricultural producers to RMA and FSA programs; improve and protect the integrity of the information collected; meet the needs of the agencies that require the data in the administration of their programs; improve the timeliness of the collection of the information; contribute to the elimination of duplication of information collection; lower the overall cost to the Department of Agriculture for information collection; and achieve such other goals as the Secretary considers appropriate for the Agriculture community.

A contract has been issued for the system development; identification of business processes and data elements of RMA and FSA is in the final stage. The next phase involve the design and implementation the information system for storing, maintaining, accessing, and retrieving approved information by RMA, FSA, and USDA. The design will leverage and comply with USDA's enterprise architecture and common infrastructure.

Program Integrity

Risk Compliance managers have been concentrating on the mission-critical tasks of evaluating and improving new processes to prevent and deter waste, fraud, and abuse in the crop insurance program. Significant effort is dedicated to building and adapting, reporting and tracking feedback systems to complement and integrate the oversight mandates established by ARPA. During 2004, Risk Compliance initiated operation reviews of insurance providers to capture a program error rate and to assess reinsured company activities under the Standard Reinsurance Agreement. The Office of Management and Budget and the USDA, Office of Chief Financial Officer are in agreement that a quantifiable program error rate is a key measure in assessing program compliance/integrity.

Additional efforts have been dedicated to integrating data mining projects; exploring avenues to expedite the increase in sanction requests; and continuing to improve the Compliance case management and tracking system. These areas of responsibility have created a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the FY 2006 Budget includes 15 additional staff years for Risk Compliance to strengthen the front-end oversight of approved insurance providers and to address outstanding Office of Inspector General recommendations to improve oversight and internal controls over insurance providers. Also, included in this budget is a request for $1 million to establish a systematic process of auditing insurance providers to detect and correct program vulnerabilities to preclude the payment of improper indemnities.

In addition, given the success of the data mining and data warehousing activities to date, a provision is included in the 2006 Budget for $3.6 million to continue funding of data mining and warehousing activities. Under current ARPA legislation, funding provided to develop the data mining and warehousing systems expires in 2005. The 2006 Budget includes a General Provision to authorize funding under the FCIC Fund to support annual maintenance costs and upgrades in FY 2006. As previously stated, approximately $94 million in improper payments were determined and $35 million in improper indemnities were received with the assistance of data mining and data warehousing capabilities.

Other Initiatives

Some of the other initiatives RMA began or accomplished in 2004 are: completion of the Basic Provisions; development of the Written Agreement Handbook; implementation of changes to Livestock Risk Protection for feeder cattle, fed cattle, and swine; and development of a handbook for Good Farming Practices.

CONCLUSION

RMA continues to make crop insurance protection useful to producers, research ways to address multi-year losses, expand risk management education opportunities, provide outreach to limited resource farmers, stimulate development of insurance products and improve program integrity. Crop Insurance is a primary system of support to producers when natural disasters strike. This was made very evident when Florida experienced four hurricanes. In response to this situation, FCIC-approved insurance providers mobilized immediately to ensure timely payments of claims.

I urge you to approve this budget as submitted to allow RMA to continue to improve a Crop Insurance Program that is actuarially sound, meets producers' risk management needs at a cost which is fair to taxpayers, affordable to farmers and sufficient for delivery of the program through the private sector as established by Congress.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.

(Exhibit 1)

FCIC: Crop Year 2005 Pilot Crops

CROPS			PLAN		
	Name	**Code**	**Name**	**Code**	**Comment**
1	Alfalfa Seed	0107	APH	90	Also identified as: Forage seed
2	All Other Citrus Trees	0211	TDO	40	Florida
3	Avocado	0019	ARC	46	California
4	Avocado	0019	APH	90	Florida
5	Avocado Trees	0212	TDO	40	Florida
6	Barley	0091	IP	42	
7	Cabbage	0072	APH	90	
8	Carambola Trees	0213	TDO	40	Florida
9	Cherry	0057	FD	51	
10	Chili Pepper	0045	FD	51	
11	Clams	0116	AQDOL	43	
12	Corn	0041	IP	42	
13	Corn	0041	IIP	45	
14	Cotton	0021	IP	42	
15	Cultivated Wild Rice	0055	APH	90	
16	Fresh Market Beans	0105	DO	50	
17	Grain Sorghum	0051	IP	42	
18	Grapefruit Trees	0208	TDO	40	Florida
19	GRP Rangeland	0148	GRP	12	New crop code in 2005
20	Lemon Trees	0209	TDO	40	Florida
21	Lime Trees	0210	TDO	40	Florida
22	Mango Trees	0214	TDO	40	Florida
23	Mint	0074	APH	90	
24	Multiple Crops	----	AGR	63	But not AGR-Lite
25	Mustard	0069	APH	90	
26	Navel Oranges	0215	FD	51	California
27	Orange Trees	0207	TDO	40	Florida
28	Processing Cucumber	0106	FD	51	
29	Raspberry and Blackberry	0108	FD	51	Several other berries are ‘types’ in this policy.
30	Silage Sorghum	0059	IAPH	96	
31	Soybean	0081	IP	42	
32	Soybean	0081	IIP	45	
33	Strawberries	0110	FD	51	
34	Sweet Potatoes	0185	APH	90	New crop code in 2005
35	Wheat	0011	IP	42	
36	Winter Squash	0065	DO	50	

Notes:
1. RMA will revise this list to reflect new or discontinued pilot programs.
2. Crop policies originally approved via the 508(h) mechanism are not considered pilots. Thus, CRC, RA, and GRIP are not considered pilots.