Statement by Eldon Gould
Administrator
Risk Management Agency
United States Department of Agriculture
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General Farm Commodities and Risk Management
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Mr. Chairman and members of the Subcommittee, I am Eldon Gould, Administrator of the Risk Management Agency (RMA). I assumed this position in November of last year. I am a life-long farmer in northern Illinois, with a 1,500 acre corn, soybeans and wheat farm and a 700 sow farrow-to-wean hog operation. I am particularly pleased to appear before you today, which happens to coincide with the major sales closing date for spring crops.

My role here today is to report on the progress and challenges of the Federal crop insurance program and, in particular, to provide an update on our successes and challenges in implementing the Agricultural Risk Protection Act of 2000 (ARPA). In fulfillment of the mandates of ARPA, and under the direction of the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), RMA continues to promote an aggressive 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 fraud, waste and abuse within the program.

One of RMA's principal objectives is to make the crop insurance program more efficient and, it is hoped, less reliant on ad hoc disaster payments. However, in recent years Congress has passed four disaster bills covering six crop years and costing the government about $10 billion. Therefore, the Administration's 2007 Budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously. Cooperation and unity between the Federal government and our insurance providers are necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating fraud, waste and abuse in the program to the greatest extent possible.

In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet the needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse need strengthening.

Last year marked a major milestone for the crop insurance program. We celebrated the 25th anniversary of the Federal Crop Insurance Act of 1980, which created the unique partnership between private insurance companies and the Federal government within the crop insurance program.

The program has experienced extraordinary growth in the last quarter century. Through the private sector delivery system in crop year 2005, RMA provided approximately $44 billion of protection to farmers on approximately 370 commodities, covering nearly 80 percent of major crops for which we can determine total eligible acres within the United States. This coverage was offered through 22 plans of insurance and approximately 1.2 million policies insuring about 246 million acres. Attached to my testimony are several charts that provide further background and highlight the growth of the Federal crop insurance program under ARPA.

In 2004, crop insurance provided approximately $3.2 billion in indemnity payments to farmers and ranchers, including approximately $218 million for the four hurricanes in the Southeast and approximately $337 million for a brief freeze in the upper Midwest. For 2005, indemnity payments totaled approximately $2.5 billion.

The roles of crop insurance and RMA have evolved over the years, but our mission remains the same – to promote, support and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agriculture producers. RMA continues to improve and update the terms and conditions of existing crop insurance policies to improve coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policyholder and insurance providers to enhance the understanding, use and integrity of the program.

The recently revised Standard Reinsurance Agreement (SRA), effective beginning in the 2005 reinsurance year, included key changes for the 2005 and subsequent reinsurance years. These entailed a lowering of the percentage rate of administrative & operating (A&O) expense reimbursement and a rebalancing of the risk sharing between the government and the insurance providers. In addition, RMA enhanced the reporting and monitoring of insurance providers and their affiliates with respect to financial solvency and program integrity. To complement that enhancement, RMA has strengthened formal ties with state insurance regulators and the National Association of Insurance Commissioners (NAIC).

We now have 16 approved insurance providers selling and servicing crop insurance. Most of these insurance providers have requested authorization to increase the amount of premium they write and the number of states they intend to serve.

Since the SRA was signed, four new insurance providers have been approved. They are Austin Mutual and its Managing General Agent (MGA), Crop USA; the Westfield Insurance Company with its MGA, John Deere Risk Protection, Inc.; Stonington Insurance Company with its MGA, Agro National LLC; and Agrinational Insurance Company, with its MGA, Agriserve, Inc.

The 2005 reinsurance year was exceptionally profitable for the companies and their commercial reinsurers, with an estimated $850-900 million in underwriting gain, a return on retained premium of approximately 30 percent. In 2004, the companies had an estimated $700 million in underwriting gain and a return on retained premium of approximately 22 percent. In 2003, companies had an underwriting gain of $380 million, with a return on retained premium of about 15 percent. In 2002, companies had an underwriting loss of $46 million, with a -2 percent return on retained premium. A&O reimbursement rose from $734 million in 2003 to $891 million in 2004, with an estimate of $830 million in 2005.

Now I would like to provide an update to the Subcommittee on the following key issues.

RMA Program Issues

- **Hurricane Crop Losses**
- **Soybean Rust**
- **Multi-year Disasters/Declining Yields**
- **Information Technology**
- **Program Integrity**
- **Conflict of Interest**
- **Pasture, Rangeland, Forage and Hay Initiatives**
- **Program Expansion and Market Penetration**
- **Florida Fruit Tree Pilot**
- **Mutual Insurance Company/Cooperative Issue**
- **Personal T-Yields**
- **Missouri River Issue**
- **Sectional Equivalent Written Unit Agreements**
- **Premium Reduction Plans**

<u>Hurricane Crop Losses</u>

Like other Federal agencies, RMA had a role in responding to victims of last year's hurricanes. When Wilma, Katrina and Rita hit the Southeast and Gulf Coast areas, RMA's delivery system was available to respond to the crop losses, ensuring the timely disbursement of payments.

In addition, RMA put in place emergency loss procedures to help producers who were subject to cancellation or termination dates for indebtedness or unpaid premium. This change allowed producers who might have become ineligible for the 2006 crop year to have additional time to either make payment of the premium due or execute a payment agreement with their insurance provider. This primarily impacted about 1,500 crop insurance policies that earned premium mostly on nursery, wheat, sugarcane and oat crops. An estimated 500-600 insured producers were impacted.

The following are the current 2005 loss estimates of the hurricanes:

Hurricane	States Impacted	Liability	Estimated Losses
Wilma	Florida	$1,196,400,000	$ 194,000,000
Katrina	Alabama, Florida, Mississippi, Louisiana	$ 525,710,000	$ 129,709,000
Rita	Arkansas, Louisiana, Texas	$ 130,183,000	$ 15,447,000
Total		**$1,852,293,000**	**$ 339,156,000**

Soybean Rust

Asian soybean rust (*Phakopsora pachyrhizi*) is a fungal disease that can quickly defoliate plants and reduce pod set, pod fill, seed quality and yield.

To ensure that producers know their rights and responsibilities under the soybean policy, RMA has augmented the information that insurance providers are required to provide to farmers through their agents. RMA's communications encourage insured producers concerned about the impact of Asian soybean rust to use good farming practices by seeking and following recommendations of agricultural experts to control soybean rust. RMA recommends that insured producers document the advice received and actions taken to combat this disease, and contact their agents on matters related to their insurance policies. Insurance providers have been asked to distribute this information to all soybean policyholders. Further, RMA met often with commodity groups, crop insurance providers and their associations and agent organizations to discuss several issues, including RMA's Manager's Bulletin that clarified good farming practices.

RMA is continually gathering up-to-date information and data regarding the spread and appropriate management of soybean rust. RMA participates in the National Soybean Rust Working Group and the USDA Soybean Rust Working Group. In addition, RMA monitors and participates as necessary in discussions among State and Federal agriculture agencies regarding preventative and control measures.

RMA also worked with other USDA agencies in creating the Pest Information Platform for Extension and Education to provide producers with information about additional legume pests and diseases. The nationally coordinated network assists producers in making crop management decisions that reduce pesticide input costs, reduce environmental exposure to pesticides and increase the efficiency and efficacy of pesticide applications. The risk management tool component of the network is an online, real-time data system that allows producers and their advisors to access the latest information, to the county level, of where there are confirmed disease and/or pest outbreaks. RMA funded the $2.4 million mapping tool, which includes frequently updated commentaries from state extension specialists and national specialists discussing immediate and projected risks and control options. Section 131 of ARPA provides authority for this Risk Management Development partnership.

The risk management mapping tool is helping to improve crop protection by educating farmers about risk-management strategies and providing timely information about good farming practices specific to current crop pest and disease risk status. Producers have the information needed so they spray only when the risk is imminent, and reduce the overall number of sprays or other pest control interventions. This tool increases producers' awareness of more precise management practices and provides documentation for potential crop insurance claims. Information is also provided to assist certified organic farmers in making decisions about planting schedules and geographic risk for disease and pest outbreak.

The soybean rust risk management tool is available online at http://www.sbrusa.net. USDA's Cooperative State Research, Education and Extension Service (CSREES), RMA and Animal Plant Health Inspection Service (APHIS) are working together to implement the system.

So far, no claims listing Soybean Rust as a primary or secondary cause of loss have been submitted.

Multi-year Disasters/Declining Yields

For most crop insurance plans, an individual insured's yield guarantee – approved actual production history (APH) yield – is principally based on a simple average of four to 10 years of actual yields. Producers and others, including Members of Congress, have suggested that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee can adversely affect the viability of future crop insurance coverage and discourage continued participation in the program.

Multi-year crop losses do create a problem, but the solution is complex, potentially costly and would require a legislative change for full implementation. In 2004, RMA solicited proposals for Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields. RMA’s goal was to seek proposals for new or modified approaches to establishing approved APH yields that are: 1) less subject to decreases during successive years of low yields as compared to current procedures; 2) equitable across policyholders with differing average yields; 3) broadly applicable to all crops and regions; 4) affordable to policyholders; 5) feasible and cost-effective for RMA and insurance providers; and 6) actuarially sound.

Two separate development contracts are underway. In November and December of 2005, Science Applications International Corporation (SAIC) and AgriLogic, Inc. presented their research and development efforts to RMA. We are pleased to report both SAIC and AgriLogic continue to make progress on defining their approaches on mitigating the effect of declining yields.

SAIC is developing an indexed yield approach and has completed the development of long-term yield trends and premium rates for corn and soybeans. Similar work on cotton and wheat is expected to be completed soon. Approximately nine states are being proposed for an initial pilot program for corn, soybeans, cotton and wheat. Rate transformation work for cotton and wheat is expected to proceed quickly, following the completion of the corn and soybean work. SAIC is also exploring required adjustments that will need to be made to the APH program to accommodate spot losses or short dataset issues and developing procedures for updating the county expected yields. Lastly, an empirical estimate of rates for each crop will be conducted to assess the appropriate rate transformation. SAIC has scheduled a second presentation to RMA for May 2006. Implementation is targeted for the 2007 crop year, subject to approval by the Board.

AgriLogic is developing alternatives to the current APH yield methods that limit the amount yields may drop (yield floor and yield adjustments) for annual crops and analyzing applicability for perennial crops. Listening sessions are scheduled for early spring of 2006 with producers, agents and insurance providers in four targeted states. AgriLogic is currently discussing with RMA the rating analysis for the proposed APH supporting methods and impacts, and evaluating premium sufficiency. Additionally, AgriLogic is analyzing the various program components and providing a breakdown of specific policy and procedural issues. A draft feasibility report and presentation to RMA is scheduled for May 2006. Implementation of the first phase is planned for the 2007 crop year, subject to approval by the Board.

Information Technology (IT)

The 2007 Budget included a request for an increase of $1.0 million for immediate IT requirements that will support patch-work enhancements to the existing IT system. If RMA is to continue to pay out billions of dollars in indemnity payments, it is prudent and necessary to have a current and reliable operating system to deliver the crop insurance program. The system's last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance, covering roughly 50 crops, and providing about $14 billion in protection. In 2005, protection was offered through more than 20 plans of insurance covering 370 crops, plus livestock and aquaculture, and providing over $44 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of these new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases, which increases data storage costs and processing times, and increases the risk of data errors.

In light of this, an additional legislative proposal in the 2007 Budget is being offered to require the insurance providers to share in the cost to develop and maintain a new IT system. The insurance providers would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed $15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of RMA.

Program Integrity
RMA's Compliance function workload increased substantially due to the expansion of the Federal crop insurance program and the implementation of ARPA. In order to address the increases, RMA is emphasizing preemption through better quality control and assurance, while still aggressively pursuing program abuse by assisting USDA's Office of Inspector General and the Department of Justice. Improvements in quality controls and investigations continue to be assisted by new and better technology, specifically the use of data mining, remote sensing, geospatial information technologies and other computer-based resources.

The renegotiation of the 2005 SRA signaled significant changes in the way RMA will ensure program compliance in the future. The SRA directs insurance providers to expend more resources on quality assurance and internal controls than ever before. The new SRA also recognizes that insurance providers have improved internal control processes in response to requirements of the Sarbanes-Oxley Act. The SRA permits the insurance providers to document and receive credit for their efforts rather than complying with a separate set of assurance mandates.

In conjunction with the new insurance provider quality control requirements, RMA Compliance has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone.

RMA Compliance personnel completed the first year of structured random policy reviews in 2005, and will soon begin the second round in the three-year cycle of reviewing participating insurance providers. Compliance completes the random reviews, in conjunction with an assessment of each insurance provider's operational compliance, and uses the information to establish a program error rate under the Improper Payments Information Act of 2002. We would note that the Administration requested funding for additional Compliance resources in the 2007 Budget, mainly for the purpose of fully staffing our work in this area.

RMA is making significant progress in preempting fraud, waste and abuse through the expanded use of data mining. We have preempted millions of dollars' worth of improper payments and RMA continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster and agent program results and, with the assistance of Farm Service Agency (FSA) offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations. Specifically, reduced indemnities on spot-checked policies were approximately $112 million in 2002, $81 million for 2003, and $71 million in 2004. Because mandatory funding for ARPA has expired, we urge reauthorization to provide funding for future data mining. We are optimistic about the long-term benefits of data mining in our compliance efforts and elsewhere should Congress continue this funding beyond FY 2006.

RMA is also using data mining to verify compliance with established rules and regulations. For example, data mining identified policies where a comparison of past claims and production data indicated that insurance providers had often failed to use claim production data to establish future approved yields, as required by regulation. RMA is providing this information to the insurance providers to assist them in correcting producer data for subsequent crop years. Insurance providers are only required to make changes when an error is found.

The General Accountability Office (GAO) audited RMA compliance activities in 2005, and recommended areas for improving our compliance efforts. The GAO made several recommendations that RMA accepted and is working to implement. However, RMA will not be able to accomplish certain GAO recommendations unless additional resources become available.

Compliance managers continue to concentrate on the mission-critical tasks of evaluating and improving new processes to prevent and deter fraud, waste and abuse in the crop insurance program. We have dedicated significant resources to building and adapting a reporting and tracking system to complement and integrate the oversight mandates established by ARPA.

While RMA, FSA and the insurance providers have preempted tens of millions of dollars of improper payments through these and other measures, RMA is constantly identifying ways to balance competing needs to make our products fraud-proof while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we are making good progress in our fight against program abuse.

Conflict of Interest Supplementary Guidance

RMA is preparing to issue a Manager's Bulletin to supplement an Informational Memorandum it issued in October 2005. This Manager's Bulletin contains further guidance to assist insurance providers in implementing changes to the SRA regarding conflict of interest reporting and prohibited conduct. RMA's supplemental guidance would promote program integrity and ensure adequate internal controls based on the identification of certain problems in past audits and investigations of fraud, waste and abuse in the program. RMA's guidance recognizes the agent's role in advising producers on their benefits and responsibilities with regard to their crop insurance policies.

Pasture, Rangeland, Forage and Hay Initiatives

RMA previously awarded four contracts for research and development of new and potentially innovative crop insurance programs for pasture, rangeland, forage and hay. There are approximately 588 million acres of pasture and rangeland and 61.5 million acres of hay land in the United States. RMA is pleased to report that positive progress continues on three contracts. At the January 18, 2006 Board meeting, two proposals were approved for pilot program in the 2007 crop year.

RMA and Grazingland Management Systems, Inc. are working on educational materials, final program materials and processing systems development for implementation of the pilot programs. The pilots will be available in select counties in Oregon, Idaho, Colorado, North Dakota, South Dakota, Oklahoma, Texas, South Carolina and Pennsylvania for the 2007 crop year. New York and Alabama may be added in 2008, subject to Board approval. RMA plans to issue program materials to insurance providers before June 1, 2006 in order to commence fall sales. RMA continues to work with the contractors on one remaining contract, which is estimated to come before the Board within the next two months for consideration of independent expert review. Further development of the other remaining contract has been terminated due to technical constraints with the product design.

Program Expansion and Market Penetration

As Dr. Collins has testified, RMA and the Board have proceeded expeditiously with the review and approval of new plans of insurance, as outlined by ARPA. RMA and the Board have reviewed priorities and schedules for product development and have determined that, barring any significant unforeseen hurdles, within the next five years a risk management product will be available to potentially cover approximately 98 percent of the commercial value of U.S. crops. That is not to say that the task of having effective and useful products will be complete. Traditional APH products have been around for years, and we are still finding ways to make them more effective and useful for producers. In addition, products to efficiently address risk management needs for livestock, specialty crops, pasture, rangeland, forage and hay, as well as to deal effectively with extended periods of drought, are in their infancy and will need significant maturation.

Since the enactment of ARPA, RMA has aggressively expanded availability of existing crop insurance programs to producers. From 2001 to date, we have added 11,215 county crop programs to those available to farmers. In addition, the Board has reviewed and approved seven new private sector products under section 508(h) of the Federal Crop Insurance Act (the Act), converted six pilot programs to permanent status and recently approved three new pilot plans of insurance, with several more new pilot programs pending independent expert review and Board action in FY 2006.

RMA has 26 active pilot programs in various stages of pilot program development. The pilot programs for crop year 2005 are Adjusted Gross Revenue (AGR) and AGR-Lite, apple pilot quality option, avocado APH, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the Income Protection plan of insurance, mint, mustard, onion, pilot stage removal option, processing chile peppers, processing cucumbers, rangeland, raspberry/blackberry, strawberries, sweet potatoes and winter squash/pumpkins.

After about three to five years of experience, pilot program evaluations are performed to determine whether the plans of insurance should be converted to permanent programs and offered in all counties where the crop is routinely grown. During 2005, RMA completed evaluations on eight pilot programs including: cherries, chile peppers, California citrus, processing cucumbers, strawberries, winter squash, AGR and avocado revenue. After consideration by the Board, winter squash and processing cucumber were terminated. Because of problems with their structure and performance, cherries, chile peppers and California citrus were continued as pilot programs until the 2006 crop year, and strawberries were extended through the 2008 crop year. Consideration of the evaluations of AGR, Apple Quality Option, Onion Stage Removal Option and avocado revenue will come before the Board in FY 2006.

On December 15, 2005, I approved the Combination Regulation, and it was sent for Departmental review. The proposed rule combines the existing APH, Crop Revenue Coverage

(CRC), Income Protection (IP), Indexed Income Protection (IIP) and Revenue Assurance (RA) plans of insurance into one consolidated plan of insurance. The final rule is targeted to be effective for the 2008 crop year.

Possibly the greatest challenge and litmus test of the effectiveness of crop insurance is whether it is bought and used by farmers and ranchers, and whether the coverage they elect is sufficient to cover the risk of major loss. These factors are also important to the private sector delivery system and the commercial reinsurance markets' acceptance of our products in determining whether products are attractive enough to the private sector to promote and support them.

Producer awareness, appreciation, proper selection and use of risk management products are important. RMA has used the authority and funding provided in ARPA to expand and enhance education and outreach activities in partnership with community based organizations, universities, extension service and others. We believe that these efforts, in combination with local and Federal agencies and the efforts of the private sector, have contributed to the strong record of expansion of the program since the passage of ARPA.

Florida Fruit Tree Pilot

A new Florida Fruit Tree (FFT) crop insurance program was approved for the 2007 crop year that will cover citrus and tropical trees. Sales were to begin on May 1, 2006. However, due to changes to the citrus canker program administered by APHIS and the State of Florida, the new program may need some modification before it is implemented. The Florida Department of Agriculture, APHIS and producer groups will be developing the new citrus health program over the next few months. The new FFT policy to be offered must function properly in an environment that is uncertain and likely to change during the coming season.

The new policy for FFT provides improvements that will help producers better cope with hurricanes and freeze. RMA is actively working with APHIS to address the canker eradication issues. RMA will be working with the citrus industry and the Florida Department of Agriculture to determine the best insurance policy design and approach to cover canker losses.

Mutual Insurance Company/Cooperative Issue

The SRA prohibits insurance providers from providing rebates to producers. A "rebate" is defined as a direct or indirect benefit provided to an eligible producer contingent upon the purchase of an eligible crop insurance contract from a company or its affiliate. However, there are two exceptions to the SRA's "anti-rebating" provision. One exception is Premium Reduction Plans, outlined in section 508(e)(3) of the Act. The other is outlined in section 508(b)(5)(B) of the Act and involves cooperative selling.

Specifically, section 508(b)(5)(B)(ii) states: "A licensing fee or other payment made by an insurance provider to the cooperative or trade association in connection with the issuance of catastrophic risk protection or additional coverage to members of the cooperative association or trade association shall be subject to the laws regarding rebates of the State in which the fee or other payment is made."

To qualify to pay a dividend or other such payment to producers:

- The entity paying the dividend or other payment must qualify as a cooperative or trade association;
- The entity must receive a licensing fee or other payment from the approved insurance provider or its affiliates (could be commission, etc.);
- Dividends or other such payments can only be made to members of the cooperative or trade association; and
- The payment of dividends or other such payments must be authorized by State law.

In addition to the above, payments must be made in accordance with section II.A.4 of the SRA, which states, "The term 'cooperative association' means a farmer or rancher-owned and controlled business that is recognized by the USDA, including FCIC, as a cooperative related to agriculture." This means that before any dividend or other payment can be made to a producer, the entity must obtain a determination from the Department that it qualifies as a cooperative related to agriculture. This applies to all entities, including mutual insurance companies owned by policyholders. Such determinations are made by USDA's Rural Development Agency.

The major factors considered are whether the entity is farmer and rancher owned and controlled, whether the dividends are paid based on usage rather than to investors based on investment, whether members only get one vote and whether a majority of the cooperative business is done with members. Evidence must be provided that the payment does not violate State rebating laws. Insurance providers must submit an Exhibit 27 from the insurance provider's Plan of Operations. Exhibit 27 includes a list of states in which payment is sought to be made and a letter from each respective State Insurance Department stating that the payment does not violate anti-rebating laws.

Personal T-Yields

RMA has met on various occasions with spring/durum wheat producers as well as representatives of various commodity groups in North Dakota to discuss implications on APH yields due to crop rotational practices employed in North Dakota. The impact on an individual producer of RMA dividing an existing APH database by crop practices or types, such as dividing spring wheat into spring wheat and durum wheat, is compounded due to the crop rotational practices employed by North Dakota producers. RMA has worked closely with these producers' representatives to determine a viable option for pilot testing an alternative approach to using transitional yields (T-Yields) when fewer than four years of records are available in individual APH databases. A pilot program that will test establishing insurance yields based on the history of the producer from his/her entire operation rather than solely the history from each individual unit in which the producer has grown the crop was requested.

The Board authorized a pilot program for the 2007 crop year for producers in North Dakota. The pilot, North Dakota Personal Transitional Yield (PTY) Pilot Program, will allow a producer to elect the use of a PTY in lieu of the T-Yields provided by RMA in the county actuarial documents. The PTY will be based upon the producer's actual yields for the crop's practice, type and variety and T-Yield map area (if applicable). It is expected that the PTY pilot will serve the producers with crop rotations, maintain an actuarially sound Federal crop insurance program and will not adversely impact other producers.

Missouri River Issue
As you are aware, the U.S. Army Corps of Engineers (Corps) had scheduled two spring "pulses" or water releases from the Gavin's Point Dam on the Missouri River in an effort to mimic the natural river rise and encourage spawning of the endangered pallid sturgeon. These pulses were planned to comply with the requirements of the Endangered Species Act.

There is concern among producers along the Missouri River and thus, among their elected representatives, that these pulses of water might cause flooding or excess moisture conditions for farms along the river. RMA learned of these concerns when producers asked if any losses suffered as a result of the pulses would be covered by the Federal crop insurance program.

The Department of Agriculture has recently responded in writing to congressional queries on this matter. We also responded earlier to the Missouri Attorney General and the Missouri Corn Growers Association. We take their concerns very seriously.

As I have stated, Mr. Chairman, I am a producer myself and one of my goals as Administrator of RMA is to ensure that RMA is doing everything it can, within its legislated authority, to assist the farmer and rancher and keep rural America and its critical agricultural industry competitive and sound.

To that end, RMA has been consulting extensively with the Corps since we learned of the planned water pulse events to determine, and where possible, minimize the risks to producers due to these releases. Having sought out the facts and evaluated our ability to act, we believe that we can lay these facts before you now with the confidence that we have examined all aspects of this issue in our continuing efforts to be of assistance.

Crop insurance payments are made on production losses that are due to acts of nature such as weather events, including drought, hurricane, freeze, disease and excess moisture. These causes of loss are manifested in the Act and specifically stated in the crop insurance policies. These proposed pulses of water by the Corps are not an act of nature, but due, instead, to the requirements of Federal law. Therefore, in the unlikely situation that there are any losses attributable to those releases, those losses cannot be covered under the crop insurance policies. However, any losses attributable to natural occurrences, such as excessive rain, will be covered.

The Corps has recently announced that the planned March pulse of water has been cancelled. The Corps has informed us that the potential May spring pulse, given the drought conditions in the basin, will cause a 1.5 to three foot rise in the river downstream. This is not expected to cause a rise above a normal navigable river level.

We have communicated with Assistant Secretary of the Army for Civil Works, the Honorable John Paul Woodley, Jr. Assistant Secretary Woodley has given RMA assurances as to the Corps' flexibility to administer the May releases, with a strong consideration given to flooding potential. The timing and magnitude of the release will be adjusted by the Corps if weather conditions or river levels suggest the potential for damage to crops along the river.

The Corps has routinely released water from reservoirs into the Missouri River system in past years to meet its various mandates without affecting crop insurance coverage. We have no reason to believe that would not continue in the future. Based on the control of timing and magnitude, and the Corps' analysis of the current conditions in the Missouri River system, neither RMA nor the Corps anticipates that the upcoming release will cause damage to crops or cropland along the Missouri River system.

I can assure members of this Subcommittee and their constituents that any crops insured with a Federal crop insurance policy that suffer losses that are specifically attributable to natural causes, such as excessive rain, will be covered in accordance with the terms of the policy, irrespective of these releases by the Corps.

There has been at least one occasion in the past where the Corps was required to release water into the Missouri River system due to excess moisture and the need to mitigate the potential for flooding. In such instances where the Corps' releases were due to a covered cause of loss, (in this case, excess moisture) any crop damage suffered by insured producers in our program from the release was covered under Federal crop insurance.

I would like to reassure you, Mr. Chairman, and the members of the Subcommittee, that RMA is fully aware of your concerns and those of your constituents. We have high regard for Assistant Secretary Woodley and the members of the U.S. Army Corps of Engineers and would like to thank them for their continued cooperation in the examination of this matter. We will remain in close consultation with the Corps to minimize any potential risks to producers along the Missouri River.

Sectional Equivalent Written Unit Agreements

In October 2004, the Board approved the 2005 Written Agreement Handbook (WAH), which removed the availability of written unit agreements for producers in Maine, New York and Pennsylvania to request optional units based on sectional equivalents. The Board directed RMA to revise procedures to ensure that all similarly situated producers nationwide were treated equitably. In September 2005, the Board authorized written unit agreements under the revised procedures. RMA subsequently released the 2006 WAH procedures, allowing producers to request written unit agreements to establish optional units based on sectional equivalents. These are intended to address growers' needs while limiting associated program vulnerabilities. RMA worked with the National Potato Council (NPC), Regional Offices and insurance providers in procedural development.

The 2006 WAH procedures require three miles between established optional units, varying climatic conditions, a geographically dispersed Farm Serial Number (FSN) and that the sectional equivalents should contain a majority of acres near the center of sectional equivalents to the fullest extent possible.

RMA is receptive to seeking long-term solutions to growers' concerns, in particular the establishment of optional units via policy language rather than written unit agreements. RMA plans to enhance the Basic Provisions, which will allow the insurance provider and producer to establish optional units in accordance with established procedure. Incorporation into the Basic

Provisions removes the burden on the producer, insurance provider and RMA to approve each written agreement. RMA, both internally and with grower organizations, has also discussed the option of utilizing grid technology to establish sectional equivalents in lieu of the existing procedure, which authorizes sectional equivalents to be determined on an individual producer basis. RMA has identified this as an item for potential contract study in 2006. Yet, any contract must consider the potential negative impact to the producer. For example, production records for the producers' APH purposes should be in accordance with any new optional unit boundaries. If the basis for establishing unit boundaries is modified, it can limit a producer's ability to recertify based on production record availability and could potentially impact APH approved yields based on new optional unit boundaries.

Premium Reduction Plans (PRP)

The proposed rule for PRP was published in the Federal Register on February 25, 2005, with a 60-day comment period. RMA received approximately 2,000 comments regarding PRP under the proposed rule. In response to the public comments, RMA published an interim final rule in the Federal Register on July 20, 2005. The interim rule is currently in effect and outlines all policies, provisions, general administrative regulations and other information related to PRP. On July 25, 2005, RMA published Manager's Bulletin MGR-05-011, which outlines how RMA will use expense information from insurance providers to calculate premium reductions.

In response to the publication of the interim rule, RMA reviewed requests from insurance providers requesting eligibility for the opportunity to offer a premium discount for the 2006 reinsurance year. On August 31, 2005, RMA announced that nine insurance providers were eligible for the opportunity to offer premium discount for the 2006 reinsurance year. An insurance provider's eligibility for the opportunity to offer a premium discount does not require the insurance provider to ultimately request approval from RMA nor does it guarantee approval to pay a premium discount to its Federal crop insurance policyholders. On November 10, 2005, the FY 2006 Agriculture Appropriations Bill was signed into law by President Bush. The law prohibits RMA from using 2006 appropriated funds to review applications for the PRP program in the 2007 reinsurance year.

Conclusion

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.

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, maintenance and administration, product evaluation and new product development.

Again, thank you for the opportunity to participate in this important oversight hearing. I look forward to responding to questions on these issues.