



Crop Insurance Professionals Association LLC.

Testimony of Jordan Roach, Vice Chairman

**Hearing of the Subcommittee on General Farm Commodities and Risk Management
To Review the State of the Crop Insurance Industry**

July 22, 2010

Mr. Chairman, Congressman Moran, Members of the Subcommittee, thank you for providing me with this opportunity to testify before the Subcommittee.

My name is Jordan Roach. I am a crop insurance agent from Fresno, California and I serve as Vice Chairman of the Crop Insurance Professionals Association, or CIPA.

CIPA is an agent organization comprised of veteran agents from across the country, from South Carolina to California, from Texas to Minnesota.

For CIPA agents, selling and servicing crop insurance is not just a business. It is a way to serve farmers and ranchers who also happen to be our friends and our neighbors and whose success is important to our whole community.

The purpose of this hearing is to review the state of the crop insurance industry. Mr. Chairman, this review is a “Tale of Two Cities.”

In the first place, on the ground, federal crop insurance is better and more vital today than ever before.

Everybody from lawmakers in Washington to local lenders are increasingly emphasizing that as budgets for Farm Bills get slimmer and slimmer, farmers and ranchers must increasingly manage their own price and production risks through tools such as crop insurance.

Producers who have traditionally benefited directly under Farm Bills will today point to (1) the near irrelevance of the Marketing Assistance Loan and Loan Deficiency Payments and Countercyclical Payments; (2) the great uncertainty of the new SURE program; and (3) the inability to take ACRE to the bank in order to obtain operating loans; and these producers conclude, more often than not, that the only safety net that they really have that is tailored to the risks unique to their individual operations is federal crop insurance. And, in the case of most of my growers in California – who do not receive any direct benefit under the Farm Bill – this is absolutely the case.

Giving further witness to the centrality of federal crop insurance to the American farmer and rancher is the \$80 billion in liability covered just last year, which is up from \$47 billion five years earlier and just \$31 billion 10 years ago. All told, producers received about \$9 billion in indemnities in 2008 and another \$5.2 billion in 2009. And, in stark contrast to *ad hoc* disaster assistance and SURE, crop insurance indemnities were paid to farmers and ranchers in the same timely manner in which one might reasonably expect to receive an indemnity on their car or home or other property and casualty line of insurance.

There are also other signs pointing to the emergence of federal crop insurance as a core component of the farm safety net. As the federal government grapples with how to address budget deficits and debt, some taxpayers may not understand the importance of a Farm Bill but they do appreciate the need for insurance.

As the Doha Round continues to falter and we see increased potential for trade litigation, federal crop insurance provides an unassailable source of protection.

As forces unfamiliar with the realities of farming and ranching today attempt to ratchet down allowable levels of support to producers and attempt to publicly embarrass producers for any support they do receive, federal crop insurance works to address the real risk management needs of the farm while protecting producer privacy.

And, as farmers and ranchers seek some sense of certainty as they make long-term plans and investments, federal crop insurance, which is enshrined in permanent law, offers at least some safe harbor from the rocky financial waters all around.

For these reasons and a host of others, one would think that Washington would be working to build upon the incredible success of federal crop insurance since passage of the Agricultural Risk Protection Act of 2000. After all, as the Chairman of the Senate Agriculture, Nutrition, and Forestry Committee noted in that Committee's first Farm Bill hearing, there is existing authority under the Federal Crop Insurance Act to aggressively meet the risk management needs of all producers from all regions and of all crops. All that is required is a will to use that authority to help all producers obtain 85% revenue protection. We wholeheartedly agree with Chairman Lincoln: this is the right thing to do.

Unfortunately, in recent years, Washington has not only failed to move quickly down the road of expanding the quality and affordability of crop insurance coverage to the American farmer and rancher, but it seems to have actually hit the brakes and thrown us in reverse. While producers on the ground are clamoring for risk protection that is tailor-made to their operations, some in Washington appear headed in an opposite direction. This is the second part of the Tale.

Recent presidential budget submissions; the slow pace of new policy development and approval; failure to address some systemic program issues, such as Actual Production History; the imprudent push for group risk and whole farm revenue approaches; as well as the recent renegotiation of the Standard Reinsurance Agreement are all very troubling omens for producers, especially beginning farmers, who depend on narrowly tailored risk management tools to weather Mother Nature and volatile markets and to obtain credit. I will touch on each.

First, I would like to thank this Committee for rejecting the Administration's agriculture budgets – which have included suggestions like eliminating CAT policies – year in and year out. I know this Committee appreciates that the farm safety net accounts for less than one quarter of one percent of the total federal budget and only about 16% of the USDA budget and that even if we were to eliminate the farm safety net entirely, it would take 100 years of savings to eliminate just a single year of the U.S. deficit.

Second, regarding the renegotiation of the Standard Reinsurance Agreement, allow me to first direct your attention to the testimony of CIPA Chairman Ronnie Holt who appeared before the full Committee in Lubbock, Texas on May 17 and to three letters of correspondence from CIPA to Secretary Vilsack, dated February 12, April 22, and June 16, in which we outlined our grave concerns. I would respectfully request that these letters be made a part of the record so that I might avoid repeating the points in the context of this testimony.

CIPA's position on the SRA renegotiation was pretty simple. We argued that, if the goal of the Administration was to reduce overhead in the delivery of crop insurance, the goal could be better achieved by lowering premium rates for all producers. Lower premium rates for producers would not only help farmers but it would also lower administrative and operating expense payments, underwriting gains for companies, and the premium costs paid by the federal government.

Alternatively, CIPA encouraged the Administration to avoid deep cuts to federal crop insurance that would undermine the all-important budget baseline for agriculture as Congress heads into the 2012 Farm Bill; service to farmers and ranchers; and good jobs in States like Iowa, Kansas, and my home State of California. We argued that the savings should not go deeper than the level of cuts resoundingly rejected by both the House and the Senate during consideration of the 2008 Farm Bill and that any savings, whatever the level, ought to be reinvested back into federal crop insurance to help producers obtain higher coverage at more affordable prices.

Among other things, we also argued for improvements to Actual Production History to eliminate the “double deductible” that many farmers must now pay; for improvements to the rating of certain crops and practices in order to lower producer-paid premiums commensurate with the lower risks; for improvements to policies for underserved crops and regions of the country to get all producers to 85% revenue protection, as Chairman Lincoln has called for; and for an aggressive expansion of policy options for producers to choose from to best protect their operations. We, as agents, were prepared to take cuts to our own commissions to pay for these important priorities that would greatly help our customer farmers and ranchers because we believe federal crop insurance is about the producer. Yet, sadly, this problem has also been ignored.

Instead, the Administration elected to cut the companies and agents who deliver federal crop insurance to the tune of \$6 billion, on top of the \$6 billion in cuts already sustained in the Farm Bill, many of the effects of which are still to be felt, such as the delay in payments to companies and the requirement of early payment of premiums by producers. Of the \$6 billion, \$4 billion in budget baseline was forever lost, thanks to the SRA. Moreover, even a good portion of the \$2

billion in budget baseline said to have been “saved” under the SRA has, in fact, been lost from the farm safety net, having been dedicated to other mission areas within the Department of Agriculture.

While we appreciate the need to address our nation’s staggering debt, and earnestly hope that this contribution toward deficit reduction will somehow shield the whole farm safety net from future cuts, we fear that, if past is prologue, this Committee will be invited to the next budget reconciliation event, nevertheless. Thus, with the farm safety net provided under the Farm Bill and federal crop insurance already threadbare, we fear that future cuts are going to cause even more serious economic pain in the countryside, especially if there is an unexpected downturn in crop prices.

To the credit of this Committee and to the Congress, this was surely not what was intended in the Farm Bill. In fact, as I alluded to earlier, both chambers of the Congress decisively rejected cuts that measured just a small fraction of the total cuts ultimately sustained in the recently concluded SRA. Moreover, the SRA authorized by the Congress in the Farm Bill was about two things: (1) rebalancing the sharing of risk between companies and the federal government; and (2) avoiding sharp spikes in administrative and operating expense payments as experienced in 2008. Unfortunately, however, the SRA devolved into a treasure hunt to pay for other programs and, only when that hunt failed, eventually into an effort to cut the budget.

Thanks to the efforts of many members of this Committee and other members of the House and Senate who recognize the importance of federal crop insurance to our farmers and ranchers and to our rural communities and jobs, some ground was made up between the first and the third USDA drafts of the SRA, not only in terms of the aggregate level of cuts but also in regards to substantive policy. For example, administrative and operating expense payment levels were brought within the realm of reason and total cuts were reduced from \$8.4 billion down to \$6 billion. We certainly want to acknowledge and thank you for your efforts.

But, frankly, speaking directly to the point of this hearing, the state of the crop insurance industry has been severely battered after what amounts to a three year political storm that culminated in an SRA that gambles dangerously with the future strength and viability of federal crop insurance. For instance, the cuts to administrative and operating expense payments will come at the very same time that the combo policy is being introduced; at the same time that complex discounts like “BYE” are churned out; at the same time that cuts made in the 2008 Farm Bill are realized; as common land unit requirements are added; as greater interaction occurs between Farm Bill programs (i.e., SURE, ACRE) and crop insurance policies; and as the financial stakes grow bigger and bigger and, consequently, more and more is being asked by producers of their agents – agents whose commissions are about to be cut under the SRA by as much as 50% when commission caps are factored in.

For agents, the commission caps contained in the SRA are a gratuitous punch. First, the caps save no taxpayer money. Second, the caps are wholly unnecessary to the goal of ensuring the financial health of companies. In USDA’s own words: “As a regulator, RMA performs a rigorous financial analysis each year on each company to ensure that it has the financial capacity to withstand 2 consecutive years of significant losses.” These review procedures, which were

revamped and strengthened in the wake of a 2002 company failure, which actually had absolutely nothing to do with agency commissions, provided appropriate means to ensure that a company's commission expenses are not out of line. But, while we may never know the real motive behind the commission caps, we can know the following about the commission caps: (1) that they represent an unprecedented intrusion by the federal government into private contracts between companies and agents; (2) that they will undermine service competition and service to underserved producers; (3) that they will mean a 4.8% commission on CAT policies (an end-around on specialty crop producers in states like California and Florida after Congress has repeatedly rejected OMB attempts to eliminate CAT coverage altogether); and (4) that they will cut some agents, including those in Iowa, by as much as 50%, meaning lost economic activity and jobs in rural communities.

For the record, I am not an agent with a commission higher than the percentage of administrative and operating expense payment. But I do not resent those who do receive higher commissions – in fact I aspire to be one of those guys and I believe the signals that I process from this free and open market are healthy in that they make me want to do the things I need to do to be a better agent. But moving from the philosophical to the practical, I also know that cutting someone's income stream by as much as 50% from one year to the next is not a responsible thing to do to anyone, much less in an economy like ours. It requires little imagination on the part of anybody who runs a business or meets a payroll to tell you what happens in the wake of cuts of this magnitude.

In fact, the commission caps, the cut in the administrative and operating expense payment, and the covenant not to sue that was entered into by the government and the companies but which also presumes to bind agents were enough for CIPA to seek outside legal counsel from a prominent law firm on the legality of the SRA, something that is evidently very much in doubt given the excessive efforts to insulate the contract from any legal challenge. To date, CIPA has declined to seek redress in federal court mainly because the organization did not wish to put in jeopardy the contracts of our agent members.

In this vein, it is appropriate to observe that the agents are increasingly regulated by the Risk Management Agency not only in terms of how we sell and service policies but now how we are compensated financially despite the fact that there has been no privity of contract between RMA and agent, and agents have no seat at the table when the SRA that they are no less bound to is negotiated.

The bottom line is that the recently concluded SRA process marked a missed opportunity to strengthen federal crop insurance for producers while saving on delivery costs. Instead, spin and cynicism trumped aspiration – and everybody lost in the process. Producers lost the opportunity for better coverage at lower cost. Congress lost funds to write a new Farm Bill. And, yes, agents lost revenue needed to cover payrolls and sell and service policies to our farmers and ranchers.

Fortunately, for everybody, our industry is dynamic and creative and it will find a way to make the most of what it has been given despite the deep cuts. In the coming days under this SRA, there is certainly going to be some economic upheaval and adjustment, just as the Administration

apparently envisioned. But we will get through it, just as we have in the past, and we will continue to strive to provide the best service possible to our growers.

And, as we head into the 2012 Farm Bill debate, it is important to consider what has and has not worked for the American producer. Some may want to push lawmakers in the direction of group risk protection, even though farmers cannot take this sort of protection to the bank, something especially hard on the beginning farmer who is the very producer Washington wishes to protect. Others may want to push Congress into a whole farm revenue approach although the examples of this on the ground have left an awful lot to be desired. Still others may wish to push lawmakers into a one-size-fits-all kind of crop insurance or a crop insurance delivered by the federal government, despite the chills each of these propositions sends down the backs of farmers due to their track records.

In the swirl of these new ideas, I would simply ask that you consider what you have in federal crop insurance, which works exceptionally well for so many, is the only game in town for so many others. And I would also ask that you consider what it can be – even absent legislative action – if we join together to act and press USDA to use its authorities to expand quality coverages for all crops in all areas and improve the existing policies so that all producers would have viable options to buy-up at the 85% level.

Next year, the 112th Congress will walk into the next Farm Bill in a deep budgetary hole, given the baseline that has been lost through this SRA process, and the expiring budget baseline associated with the SURE program. Yet, expecting to further whittle an already shaved-down farm safety net in order to pay for other things may well jeopardize the coalitional efforts long necessary to pass a Farm Bill. Moreover, offering new fangled ways to provide producers with less will not work either. While the status quo offered by the commodity title of the Farm Bill today offers some comfort to producers, I would just say we can do better.

By encouraging USDA to aggressively use its authority under the Federal Crop Insurance Act to expand and improve the quality of coverage and address some of the problems producers face under the program, we can at least lower the very high stakes of what is bound to be a tough and contentious Farm Bill process.

Thank you once again for the opportunity to testify before this Subcommittee. I look forward to answering any questions Members may have.