



One Massachusetts Ave., NW • Suite 800 • Washington, DC 20001 • (202) 789-4100 • Fax (202) 408-7763
Website: www.cropinsurers.com • E-mail: aaci@mwmlaw.com

American Association of Crop Insurers (AACI) 2012 Farm Bill Position

First, AACI urges Congress to support both the Federal crop insurance program and private sector delivery of the program at current budget levels for a period of time sufficient for the 2011 SRA and 2008 Farm Bill to be fully implemented and the impacts thoroughly analyzed.

The administration unilaterally used their opportunity to renegotiate the Standard Reinsurance Agreement (SRA) to reduce payments to the private sector delivery industry by a total of at least \$6 billion for the ten year period beginning in the 2011 crop insurance year, resulting in the contribution of \$4 billion to deficit reduction and the reprogramming of another \$2 billion. These \$6 billion in cuts came after Congress had already made about \$6 billion in cuts for program delivery as part of the 2008 Farm Bill. Any further budget cuts before the private sector delivery industry has a chance to absorb these \$12 billion in reductions will risk undermining the stability and viability of the crop insurance program. Guidance for knowing the period of time that would possibly be sufficient can be taken from the congressional mandate that the SRA can be renegotiated only once every five years. In five years, the necessary data may be available to complete a thorough analysis of the impact of the 2008 Farm Bill and the 2011 SRA.

Secondly, AACI urges Congress to reject all proposals for expanding the role of government and reducing private sector jobs by returning any part of the Federal crop insurance program's delivery to any government agency and, thereby, continue the current public/private partnership, which is functioning well.

Private sector delivery is a major factor in the success of the modern crop insurance program. Private companies and agencies have the built-in incentive and ingenuity to provide the service farmers, ranchers and growers need and depend on in making risk management decisions in using the Federal crop insurance program. Moreover, in his February 17, 2011 Manager's Report to the Federal Crop Insurance Corporation's (FCIC) Board of Directors, Bill Murphy, Administrator, Risk Management Agency, USDA, reported the following: "Reviews conducted by RMA in response to the requirements of the Improper Payments Information Act of 2002, as amended, over the past seven years indicate that the program operates with an error rate of around 5 percent. This compares favorably with the private Property and Casualty Insurance Industry that typically reports error rates between 15 and 20 percent for those lines of business."

Furthermore, the government's experience in selling and servicing crop insurance policies has not compared very well at all to that of the private sector. Whether considering outreach to farmers, cost of delivery or timeliness and accuracy of claims processing, private industry's performance has proven far superior. Data show that when provided with a choice, farmers rapidly turned away from government delivery to the private sector for crop insurance assistance and service. This "government-experience" history is exactly the reason the private sector was assigned the sole responsibility for selling and servicing Federal crop insurance policies beginning in the late 1980s. The current public / private partnership—where the government supports and regulates and the private sector delivers the program—is working well after 30 years of evolution, guarded closely and nurtured carefully by Congress.

Those who call for greater Farm Service Agency involvement in claims adjustment as a way of saving Federal jobs in the countryside do not have the interests of farmers at heart. The "modern" crop insurance program started out in the 1980s with a dual system of delivery in which farmers were given the choice of buying policies sold by private agents who contracted with the government and had the government service claims, or they could buy policies from private companies who would both sell policies and service claims. Because the private sector outperformed the government, especially in terms of quality of farmer services, timeliness and accuracy of claims processing and cost (1989 Arthur Andersen study reported government cost was more than twice that of the private sector), all program delivery was assigned to the private sector by the end of the 1980s.

Today, as our nation ponders a growing national and world demand for food, natural fiber and renewable fuel, demanded by a growing world population and the likely prospect of an increasing number of higher income consumers, looking backward should not be an option. It certainly would be an expensive option. In fact, going back to government delivery of any part of the program would cost millions of dollars to establish an adequately trained and qualified staff of government employees and to acquire and implement the necessary information handling and processing systems, all of which is present and accounted for in the private sector today.

America's farmers, ranchers and growers, as well as landowners, bankers, consumers, rural economies and the national economy in general, depend heavily on the quality and utility of the modern Federal crop insurance program as efficiently and effectively delivered today by the private sector. Clearly, the Federal government has an important role to play in the effective functioning of this important risk management program, but equally clearly, this role is not in selling and servicing policies or adjusting claims. Each partner in the current public/private partnership is equipped with characteristics that make it well suited for its current role. The current division of responsibilities is how the Federal crop insurance program should continue to operate.

Thirdly, AACI urges Congress to continue expanding and improving the Federal crop insurance program for the benefit of America's farmers, ranchers and growers.

Although a wide array of policies are being offered by the program today, there are areas in the nation's production agriculture industry where effective and affordable multi-peril and market insurance protection is not available. According to congressional testimonies and other public accounts, specialty crops is one example, but farmers across the nation are asking for the Federal crop insurance program to be not only continued but expanded and improved.

Lastly, AACI urges Congress to incorporate the delivery of any supplemental agricultural assistance program with the delivery of the Federal crop insurance program by the private sector industry.

Supplemental agricultural assistance programs can be structured to avoid duplication or overlap with the Federal crop insurance program. These programs can be designed to use crop insurance data. Programs structured around the crop insurance program could also be delivered by the private sector crop insurance industry for a lower marginal cost to the government.