

Mr. Chairman and Members of the Committee, thank you for the opportunity to be at today's hearing on crop insurance and risk management issues for U.S. agriculture. I currently serve as Chairperson of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC). My remarks today will focus on the activities of the Board since passage of the Agricultural Risk Protection Act (ARPA) of 2000.

ARPA made substantial changes to both the functions and responsibilities of the FCIC. In today's hearing, Mr. Ross Davidson, Manager of FCIC and Administrator of the Risk Management Agency (RMA), and other witnesses will discuss many of these changes, including:

- ? Expanding pilot programs to include livestock, a sector of agriculture specifically excluded in the past,
- ? Emphasizing service to underserved states, underserved crops, and underserved producers,
- ? Outsourcing the internal research and development of crop insurance products,
- ? Increasing risk management and crop insurance education and
- ? Expanding the role and the use of cutting edge technology, such as data mining, to increase risk management compliance.

ARPA also changed the management of FCIC to facilitate the changes in priorities and the increased activity mandated by this new legislation. Prior to the enactment of ARPA, the Board of Directors consisted of: the Corporation Manager; two Under Secretaries of Agriculture, one responsible for the Federal crop insurance program; a crop insurance professional not otherwise employed by the Federal government; and three active producers who were policyholders and not otherwise employed by the Federal government

Under ARPA, the number of private sector Board members has increased. The new structure of the Board is: the Corporation Manager as an ex officio non-voting member; two Under Secretaries of Agriculture, one responsible for the Federal crop insurance program; the U.S. Department of Agriculture's Chief Economist; one crop insurance professional; one member experienced in reinsurance or the regulation of insurance; four active producers who are policyholders from different geographic areas of the United States, and represent a cross-section of agricultural commodities, including at least one specialty crop producer.

The Board has met thirty-one times since enactment of ARPA in June 2000, compared to twenty-seven times from 1996 through 2000. Several factors contributed to this increase in activity, including the increased submission of private products under section 508(h) of the Federal Crop Insurance Act (Act), and the requirement that the Board use independent expert reviewers to assist in the decision making of the Board.

Section 508(h) of the Act authorizes the reimbursement of certain costs associated with the development and submission of products from persons outside FCIC. This incentive, along with the expansion of allowable commodities, such as livestock, has fueled an increase in the number of private submissions. The legislation also requires FCIC to make determinations on submissions to the Board by issuing a notice of intent to disapprove a product not later than 90 days and approve or disapprove a product not later than 120 days after receipt of a complete submission.

ARPA also requires the Board to contract with independent actuarial and underwriting experts for the independent review of policies, plans of insurance, and related materials prior to the Board giving approval for such products. In making its decisions, the Board must take the results of the expert reviews into consideration before its determination of approval or disapproval. Since the enactment of ARPA, over 150 independent expert reviews have been conducted on over two-dozen submitted products and program modifications. The Board currently has nearly forty expert reviewers under contract. The recruitment and retention of qualified expert reviewers is an ongoing task.

The Board approved several new risk management products over the past two years, including the Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) plans, as well as whole farm insurance policies such as AGR-Lite, and a Nutrient Best Management Practices insurance plan. New specialty crop insurance program proposals have been approved including caneberries and forage seed. The Board has also approved the expansion of certain pilot programs, such as the pecan insurance pilot program.

The Board generally delegates ratemaking issues to the Manager of FCIC. However, due to the magnitude of the potential changes to the rating structure of major FCIC products, the Board decided to be directly involved in the review of the rating methods for several products, including APH, Revenue Assurance, and Crop Revenue Coverage. This review may lead to substantial changes in the way most crop insurance is rated. The Board also reviewed Crop1's Premium Discount Plan and recommended its approval if the criteria in the procedure, created by the Board, were met.

As we look to the future of FCIC, the Board will be focusing on a range of issues crucial to improving the risk management capacity of farmers and ranchers. In order to ensure that FCIC's resources are used in the best possible way to meet the needs of producers and the industry, the Board has authorized a set of studies looking at the FCIC's current and future products. The first is a comprehensive review of policies, plans of insurance and related materials. This study focuses on any inconsistencies or overlaps between the program legislation, regulation and program materials. The second is an analysis of the FCIC product portfolio, with specific attention on coverage overlap and gaps. We believe this study will help the Board and RMA deal with the large number of pilot programs and feasibility studies that are in the pipeline. The results of both of these studies should give FCIC valuable assistance in developing a strategic product development plan.

The Board is also mindful of the statutory charge that "The management of the Corporation shall be vested in a Board of Directors subject to the general supervision of the Secretary." While the Board is very active in the general management of FCIC, the Board cannot and should not manage day-to-day activities and issues that continually arise in this complex program. That is the task of Under Secretary Penn and Administrator Davidson, and they are doing an excellent job.

In order for the Board to manage its considerable responsibilities of guidance and oversight placed on it by the Act, as amended by ARPA, the Board has created a committee structure to help ensure appropriate attention is given to the full range of issues the Board must address.

Newly created Governance and Audit and Finance Committees are the first stop for many of the issues that need Board attention. For example, the Governance Committee is currently addressing the delegation of authorities from the Board to the Manager of FCIC. The Board expects its review and reformulation of the delegations to be finished this summer.

The Board is fulfilling, and will continue to fulfill, its statutory responsibilities, including the provision of oversight, guidance and direction to FCIC and RMA. The Board is committed to strengthening the nation's crop insurance and other risk management programs and the regulatory functions of RMA. All of the Board members are pleased to have the opportunity to serve American agriculture and all are working diligently to ensure this crucial part of the farm safety net functions as efficiently and as effectively as possible.

That completes my remarks.

Thank you.