Mr. Chairman and members of the Committee, I am pleased to appear before you today to report on the progress and challenges of the Federal crop insurance program and particularly 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), the Risk Management Agency (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 waste, fraud and abuse within the program.

This year we mark a major milestone for the crop insurance program. Twenty-five years ago, the Federal Crop Insurance Act of 1980 became law, creating 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 2004, RMA provided approximately $46.7 billion of protection to farmers on approximately 370 commodities covering over 80% of planted acreage in the United States. This coverage was offered through 22 plans of insurance and approximately one and a quarter million policies that insured about 221 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 $3.1 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.

The roles of crop insurance and the Risk Management Agency 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 understanding, use and the integrity of the program.

The new Standard Reinsurance Agreement (SRA) is now in place, effective for the 2005 crop year. Key changes included 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 private sector, which will be implemented over the 2005 and 2006 reinsurance years. In addition, RMA enhanced the reporting and monitoring of SRA holders and related parties 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, compared to 14 when the 2005 SRA was signed. Most of these companies 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, three new insurance companies 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.; and Stonington Insurance Company with its MGA, Agro National LLC. RMA has also been contacted by another major organization, which has indicated it is in the process of preparing an application to join the program.

The 2004 reinsurance year was exceptionally profitable for the companies and their commercial reinsurers, with 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 has also risen from $626 million in 2002 to $734 million in 2003, with an estimated $889 million in 2004. This represents a growth in A&O reimbursement per policy of 45% over the past three years.

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

RMA Program Issues

? Premium Reduction Plans

? Soybean Rust

? Multi-year Disasters/Declining Yields

? Program Integrity

? Misreporting and Penalties

? Conflict of Interest

? Pasture, Rangeland, Forage and Hay Initiatives

? Program Expansion and Market Penetration

? Nursery Final Rule

Premium Reduction Plans (PRP)

In 1994, Congress added Section 508(e)(3) of the Federal Crop Insurance Act, which allows approved insurance providers to offer premium discounts to farmers corresponding to demonstrated efficiencies in delivering crop insurance below the A&O expense reimbursement. The Act requires that the PRPs be subject to the rules, limitations and procedures established by the FCIC.

The Board established procedures for allowing approved insurance providers to offer PRP in early 2003 in response to the application made by Converium Insurance Companies (Converium) and its Managing General Agency, Crop1. Converium was approved to offer a PRP under those procedures, which were available to all companies. RMA then closely monitored Converium and Crop1's implementation of their approved PRP, including investigating complaints received from competing agents and insurance providers.

In the few instances that it was found an adjustment was needed, RMA required Crop1 to adjust its approach in the marketplace to ensure compliance with the rules, limitations and procedures of the crop insurance program in general, and those specific PRP procedures established by the Board. This included the requirement that Crop1 make insurance available to all farmers in the states in which the company sells and services crop insurance. Farmers who purchased insurance using the PRP plan expressed appreciation for the lower premiums and consistently reported good service. Additionally, Crop1 has a very good record of compliance with the administrative requirements of reporting policy information, remitting payments to FCIC and resolving discrepancies. As with all insurance providers in the program, we continue to assess compliance with the requirements of the program and follow up on consumer and competitor complaints as we become aware of them and take corrective action where warranted.

In 2004, a number of additional insurance providers requested RMA's approval to offer their own PRP. Implementation issues were raised by these new submissions that were not contemplated when the procedures were drafted. In light of this and other issues that have been raised regarding the effect of PRP on the crop insurance delivery system, the Board adopted a resolution on November 19, 2004 to promulgate a regulation to address these issues.

The proposed rule for PRP was published in the Federal Register on February 24, 2005, with a 60-day comment period. The comment period ended on April 25, 2005. RMA has received approximately 800 separate mailings and 1,900 comments pertaining to the PRP proposed rule.

Generally, the comments received have expressed concerns about the potential for PRP to reduce agents' commissions and the effect this would have on the agent force and service to producers, particularly small, minority and limited resource producers. Several comments have expressed concerns that PRP will result in larger, lower-risk producers being targeted for the discount, while smaller producers would not be offered the discount. However, RMA has also received comments supporting PRP, stating that Crop1's Premium Discount Plan has allowed producers to purchase higher coverage levels. Briefings on PRP for both the Senate and House Agriculture Committee staffs were also held recently to provide a summary of the comments and answer questions about the process.

These comments have been very helpful to RMA in evaluating the benefits, challenges and appropriate measures to take to administer a PRP in light of the statutory language and consistent with the long term integrity and viability of the crop insurance program. The regulatory process will document RMA's evaluation and consideration of the comments and the resultant changes to the proposed rule.

At the direction and under close oversight of the FCIC Board, the rulemaking process continues to move along in a timely manner.

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 farmers 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, on May 26, 2005, RMA met with commodity groups and crop insurance providers, their associations and agent organizations to discuss several issues, including RMA's Manager's Bulletin on clarification of good farming practices.

Additionally, 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's bi-monthly teleconference and U.S. Department of Agriculture 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 holds a bi-weekly conference call with all RMA Regional Office Directors to discuss their direct contact with local State and Federal agriculture officials to obtain any updated information or developments in the spread and control of the disease.

Multi-year Disasters/Declining Yields

For most FCIC insurance plans, an individual insured's yield guarantee - approved Actual Production History (APH) yield - is principally based on a simple average of four to ten 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 and potentially costly. Last spring, RMA solicited proposals for Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields. RMA goals were 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 5) actuarially sound.

Contract proposals have been received and evaluated and RMA recently entered negotiations for two contracts to begin the necessary research and development of alternative methods. The details of those proposals are not publicly releasable at this time, but we will release them as soon as contract negotiations are complete. Any proposal effectively addressing this issue may require additional funding and possibly new statutory authority.

Program Integrity

Additional efforts have been dedicated to integrating data mining projects; exploring avenues to expedite the increase in sanctions requests; and continuing to improve the Compliance case management and tracking system. Our Compliance function workload has increased substantially due to the expansion of the Federal crop insurance program and the implementation of ARPA. In order to deal with the increased referral activity, RMA has sought to manage the increase in workload by emphasizing the use of data mining, remote sensing, Geospatial Information technologies and other computer-based resources.

RMA is making significant progress in preempting fraud, waste and abuse through the use of these tools. We have preempted millions of dollars' worth of improper payments and RMA continues to identify ways to reduce fraud. RMA has used data mining to identify anomalous results in the crop insurance program and, with the assistance of Farm Service Agency (FSA) offices, conducts growing season spot checks to ascertain the cause of the results. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations.

RMA saved approximately $125 million in 2002 by deterring or preventing potentially fraudulent claims through data mining and other related activities. Additional savings of approximately $93 million were realized for 2003. We are optimistic about the long-term benefits of data mining in our compliance efforts and elsewhere should Congress continue funding beyond 2005.

Recent activity in this area identified policies where a comparison of past claims and APH data indicated that claim production data was not used to establish the APH as required by regulation. The Compliance Offices have completed their assessment of the accuracy and validation of this information. On October 10, 2004, Compliance notified the insurance providers that as a result of data mining, RMA had identified potential debt on approximately 14,000 policy units. The notification also contained a request to hold policy records for these units beyond the three-year record retention requirement, if applicable. Although the request did not immediately require the insurance providers to review these policies, several insurance providers have initiated reviews to determine the extent of the problem and preclude potentially incorrect payments on crop year 2004 claims. Some of these providers have already notified RMA of certain procedures that account for the discrepancies, confirming the fact that data mining results identify anomalous data, but still require review to determine whether an error exists for the policy.

The return on investment using data mining is significant. For example, RMA believes that over $320 million in estimated savings for the last four years is attributable to the data mining spot-check process.

RMA 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 the reporting and tracking feedback systems to complement and integrate the oversight mandates established by ARPA. During 2004, Compliance initiated operation reviews of several insurance providers to capture a program error rate and to assess insurance provider activities under the SRA. The Office of Management and Budget and the USDA Office of Chief Financial Officer agree that a quantifiable program error rate is a key measure in assessing program compliance and integrity.

While RMA and FSA 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 fraud.

Misreporting and Penalties

A recently publicized dispute between some Nebraska producers and the Federal crop insurance program highlights the potential problems associated with certifications and correcting multiple years of discrepancies in reported information. The RMA Central Regional Compliance Office is assisting the Office of Inspector General (OIG) in a criminal/civil investigation of a crop insurance agency. The OIG initiated the investigation as a result of RMA reviews that identified the appearance of fraud, waste and abuse in the crop insurance policies serviced by the agency. Currently, the U.S. Attorney's office and OIG are in charge of the matter, with RMA and the impacted insurance providers assisting to bring this matter to a close as soon as possible.

The agency serviced a large book of business of over 400 crop insurance policies in Nebraska and South Dakota. Based on complaints received from FSA, RMA began investigating the appearance of fraudulent activities of the insurance agency for the 2000, 2001 and 2002 crop years.

RMA found significant misrepresentations of the production and acreages covering several years in crop policies serviced by the agency. The misrepresentations included several cases where producers certified having planted crops they never grew or had not grown in several years and where producers certified having an insurable interest in crops in which they had no such interest. There were also instances of inflation or deletion of production histories involving multiple crop units and years, which had the effect of inflating the producers' guarantees. As a result, the producers had inflated APH databases, incorrect insurance premiums and received overpaid indemnities, many occurring over a period of several years.

In November 2002, the insurance provider that the agency was affiliated with, American

Growers Insurance Company (Growers), was placed under supervision by the State of Nebraska. The policies written by the agency for Growers were then assumed by various companies beginning with the 2003 crop year. By the time OIG released RMA to begin corrective action relative to the incorrect policy certifications, the former agency policies had been placed with 14 different insurance providers.

In August of 2004, RMA sent letters to the insurance providers notifying them that the RMA reviews had found significant errors in former agency policies and that they needed to have the producers recertify their APH records and make corrections to the 2003 and 2004 data as appropriate. The intent was to provide information to the insurance providers so they could begin correcting policies, even though the OIG investigation was ongoing.

Some producers who believe the insurance providers' corrections were unfair have filed suit against USDA and RMA. This current legal action is the result of insurance providers correcting yields that producers could not support with their records. RMA received enough feedback to recognize that the instructions given in August needed to be revisited to ensure consistent treatment of these producers. On March 11, 2005, RMA placed a hold on the insurance providers implementing those previous instructions so that RMA could clarify the instructions to ensure producers were not adversely impacted because the procedures may have been misunderstood. RMA also ensured that all the affected producers will be eligible for 2005 crop insurance.

On May 25, 2005, RMA sent out further instructions to the insurance providers in compliance with an agreement to ensure that the corrections made in this case were fair and equitable. However, policyholders' coverage may still be affected by their ability to prove their yields under the revised guidelines issued by RMA to the insurance providers as a condition of reinsurance. This in turn may result in: 1) changes to policyholders' 2005 crop year liability and premium; 2) corrected premium and indemnities from prior years; and 3) repayment of any prior indemnities to which the producers were not entitled. Producers in all cases will have the ability to dispute the insurance provider findings under the terms of their crop insurance policy.

Conflict of Interest Supplementary Guidance

RMA is preparing to issue a Manager's Bulletin to supplement an Informational Memorandum it issued in March, which contains further guidance to assist approved insurance providers to implement changes to the new 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 will recognize the agent's role in advising producers on their benefits and responsibilities with regard to their crop insurance policies.

On May 26, 2005, RMA met with commodity groups and crop insurance providers, their associations and agent organizations to discuss the draft Manager's Bulletin. Additionally, RMA has briefed congressional staff on this issue and has received helpful comments from them, industry, producer groups and the FCIC Board. We appreciate the feedback and assistance in addressing these compliance issues.

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. We are pleased to report that positive progress continues on each of these four contracts. RMA expects that at least two proposals may be ready for the Board to consider for independent expert review as early as August 2005. If approved by the Board, pilot testing could begin in 2006.

Program Expansion and Market Penetration

As Dr. Collins has testified, RMA and the FCIC 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 5 years a risk management product will be available to 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 over time.

Since the adoption 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 FCIC Board has reviewed and approved seven new private sector products under section 508(h) of 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 2005 and 2006. Currently, over 25 programs or program options are in various stages of piloting. RMA expects that most of these pilot programs will continue to be modified and fine tuned over the next several years to meet marketplace demands and needs.

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 capital (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. It is believed 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.

Nursery Final Rule

On June 20, 2005, RMA received word that the Office of Management and Budget had cleared the Nursery final rule. In general, the rule is designed to better meet the risk management needs of nursery producers and to encourage nursery producers to choose higher levels of coverage. The rule is scheduled to be published in the Federal Register by June 30, 2005, effective for the 2006 crop 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

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.

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