Mr. Chairman and members of the committee, it is a pleasure to appear before you to discuss the progress and challenges of the federal crop insurance program. RMA has made significant progress in implementing the letter and intent of the Agriculture Risk Protection Act of 2000 (ARPA). ARPA charged the U.S. Department of Agriculture (USDA) and RMA to enhance the federal crop insurance program to better serve our nation's agricultural producers.

Specifically, these enhancements include:
? Improving program integrity, compliance and regulation
? Expanding crop insurance to include livestock, rangeland and forage
? Expanding agriculture assistance programs to include additional underserved states and producers
? Increasing risk management education and outreach to help more producers better mitigate their risks
? Expanding specialty crop programs to reach more producers

GENERAL OVERVIEW
The federal crop insurance program, administered by RMA, is a government-private sector partnership in which RMA oversees the sale and service of crop insurance by 18 private insurance companies, reinsured by FCIC, through licensed private agents and brokers. This system includes over 25,000 professionals consisting of RMA, the reinsurance companies, insurance agents and loss adjusters. Reinsured companies are responsible for marketing the policies, collecting premiums, and resolving producers' claims.

The primary mission of the Risk Management Agency (RMA) is to promote, support and regulate the delivery of sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. In fulfilling this mission, RMA is also responsible for implementing Congressional directives and decisions made by the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board).

PARTICIPATION
In response to subsidies provided by ARPA and an aggressive education program, farmers have actually purchased higher levels of protection and revenue crop insurance coverage policies. In 2002, over 50 percent of the insurable acreage was insured at 70 percent coverage or higher compared to only 9 percent in 1998. The high participation rate and the higher levels of coverage purchased have enhanced the ability of crop insurance to become the main risk management tool for America. In addition, the increased number of farmers buying up higher levels of coverage has generated increased efficiencies.

However, the traditionally underserved states still lag in participation. The main reason given for this lower participation has been unavailability of appropriate coverage and the perceived high cost of buy-up coverage. RMA is working assiduously to promote and facilitate the development of revenue and specialty crop insurance to address availability questions and affordability concerns.

ARPA provided funding for the Agriculture Management Assistance program, and then was modified to include additional funding by the 2002 Farm Bill. In February, the Department announced an effort to better serve the 15 historically underserved states targeted under the

Agricultural Management Assistance program by providing up to $18 million in additional subsidy for higher levels of coverage through the Targeted States Financial Assistance program.

This program, which is designed to increase participation in the crop insurance program and help producers manage production, price and revenue risk, has been very successful. Providing this additional financial assistance has encouraged many producers to purchase crop insurance for the first time and has allowed many producers to purchase the maximum coverage level available. RMA has received many positive letters from producers, producer groups and insurance agents in many states who are pleased with the program. We expect to have more definitive participation data later in the summer, after acreage reporting dates have passed, and we will be pleased to share that with you.

PRODUCTS & COVERAGE

Portfolio Review

In fulfilling ARPA requirements, Secretary Veneman asked the Risk Management Agency to undertake a major initiative in 2003 to identify the underserved producers and closely examine the regions, commodities and risks to better serve producers. RMA is undergoing an extensive product portfolio review, conducting listening sessions with producers across the U.S. and identifying crop insurance priorities of local and national producer groups, lenders and state departments of agriculture to identify ways in which it can improve and fine-tune its products. Under guidance from Secretary Veneman and the Board, RMA continues to support and regulate the development of new risk management tools, update and adapt existing tools to meet emerging market needs, technologies and risks, and expand availability of risk management tools for all producers.

A variety of insurance products are available to producers, including yield-based plans, revenue insurance plans, dollar plans, and pilot programs for livestock, rangeland and forage, and specialty crops. RMA has nearly 30 feasibility studies and product developments currently underway. Significant demands are placed on RMA to monitor, update and keep up with technology advances, changing and growing farm practices, and emerging producer needs.

RMA is also actively fulfilling ARPA's vision of education, outreach, and the use of technology to safeguard the future viability and integrity of the program. Following are highlights of recent and ongoing activity.

Apples

RMA's work with the apple industry to improve apple insurance coverage is a good example how producers, insurers and the agency can work together to adapt the program to address market changes, new risks and local conditions. RMA, in conjunction with U.S. Apple Association, has been working to make improvements to the current apple policy. While several options are being considered, it is important that meeting the needs of producers is first and foremost. Members of U.S. Apple and producers have been pleased with the discussions thus far. We hope to reach a consensus soon and will do everything within our authority to expedite the appropriate changes. RMA regularly works with producers to address such emerging needs.

Livestock, Rangeland & Forage

ARPA authorized RMA to insure several types of animals and animal products, including dairy. RMA recently announced a Livestock Risk Protection (LRP) pilot program for fed and feeder cattle. Both risk protection plans protect cattle producers from declining cattle prices. Sales open for both products on June 9, 2003. Additionally, RMA is entering its second year of insuring slaughter hogs in Iowa under two different pilot insurance plans. The LRP pilot program provides swine producers with protection from declining prices. The Livestock Gross Margin (LGM) pilot program protects swine producers from increasing prices in corn and soybean meal and/or declining slaughter hog prices. Several other livestock initiatives are currently underway, including two contracts: a feasibility study for various livestock related insurance plans and another contract to study possibilities for insuring against catastrophic livestock diseases, both of which include dairy.

RMA is also testing pasture and forage products in order to fulfill ARPA requirements. The Group Risk Protection (GRP) rangeland pilot is currently offered in twelve Montana counties. While this product is not working as well as RMA or producers would like, RMA is doing everything possible to ensure that the discovery and determination of yields used to make loss payments are accurate and fairly represent the crop year's production experience of Montana's rangeland producers. RMA has contracted for an evaluation of the GRP program and a feasibility study specifically for pasture and rangeland to determine if an individual risk management program can be developed rather than the group program.

The performance of the Actual Production History (APH) forage program is being reviewed and a contract has been awarded to improve the loss adjustment methodology and determine the feasibility of a forage quality adjustment endorsement.

Adjusted Gross Revenue (AGR)

In accordance with the 2002 Farm Bill, RMA expanded the areas for the AGR program to additional counties in Pennsylvania and California. AGR is nearing the completion of its pilot phase and will undergo final evaluation after which the Board of Directors will consider nationwide expansion.

RMA has received interest from many states in an adaption of AGR called AGR-Lite which was submitted by the Pennsylvania Department of Agriculture and approved by the Board for use in Pennsylvania. Recently the Pennsylvania Department of Agriculture submitted certain changes and requested the expansion of the AGR-Lite program. On May 7, 2003, the Board sent the submission out for review by five external reviewers.

Cost of Production

Cost of Production (COP) is a new and untested insurance concept and approach. Many issues, including program design, rating, delivery and administration, still must be addressed. RMA and the contractor on this product are currently addressing the issues raised by independent expert reviewers, RMA staff, the Office of General Counsel, and Board members during the Board's consideration and approval process. We expect to revisit these issues by mid-summer when the product is resubmitted for the Board's re-consideration. Pending resolution of these issues to the Board's satisfaction, a policy for cotton may be available for the spring 2004 Crop Year. Any decision to expand this program to other crops would be decided by the Board, taking into consideration the experience of any initial pilot program.

Drought Coverage

Excessive drought has plagued and continues to affect many producers in the U.S. RMA recognizes this challenge and has several programs that address the needs of drought-stricken producers. RMA has demonstrated its continued service to producers during drought stricken years by paying all legitimate indemnity claims which, for CY 2002, amounted to over $4 billion in indemnities compared to $3 billion for CY 2001.

Prevented planting provisions cover producers in times of excessive and multi-year drought. Recently, RMA provided supplementary information explaining prevented planting policies to producers. Most producers have found that they are covered better than they originally thought. Additionally, RMA is holding a series of prevented planting forums consisting of RMA, insurance industry representatives and commodity group representatives to improve RMA's prevented planting coverage for the future.

To mitigate the effects of drought on Actual Production History (APH) yields and insurance coverage, yield substitutions authorized by ARPA are in place. This allows producers who have suffered catastrophic losses to receive a yield equal to 60 percent of the transitioned yield for the county. RMA is also evaluating the possibility of requesting revisions to the yield substitutions to determine if more assistance can be provided to address long-term production declines such as those induced by extended drought.

EDUCATION & OUTREACH

RMA targets risk management education activities to states that have been underserved by crop insurance. The Secretary selected 15 states for this program: Maine, New Hampshire, Vermont, New York, Connecticut, Massachusetts, Rhode Island, New Jersey, Delaware, Pennsylvania, Maryland, West Virginia, Wyoming, Utah, and Nevada. These states have a disproportionately large share of small farms. In 2002, RMA established 13 cooperative agreements totaling $1.8 million to deliver crop insurance education and information to producers in the 15 underserved states.

In addition, RMA awarded 72 partnership agreements to conduct producer training in risk management, with a priority to producers of specialty crops. These agreements were awarded to universities, grower groups, private agribusiness organizations, and state departments of agriculture across the country.

In fiscal year 2002, RMA's Civil Rights and Community Outreach division entered into 46 outreach partnerships totaling over $3 million dollars, covering approximately 34 states serving women, Asians, African Americans, Native Americans and Hispanic farmers and ranchers. Through these partnerships, women, limited resource and other traditionally under served agricultural producers will receive program technical assistance and training on the availability and use of risk management tools to improve their economic viability. Many small and limited resource producers participated in similar outreach activities in 2002, totaling over 100 producer groups and 35,000 individual producers.

RMA has also participated in 14 public educational briefings across the country on the 2002 Farm Bill and USDA programs and services.

PROGRAM INTEGRITY, COMPLIANCE & REGULATION

Fraud, Waste & Abuse

As directed by ARPA, RMA instituted new provisions strengthening program integrity and compliance, which have shown positive results. While RMA believes that most producers use good farming practices and comply with federal regulations, there are some instances of waste, fraud and abuse. As a result, RMA has launched several oversight efforts, which have proven successful in deterring and detecting fraud.

To combat fraudulent claims, RMA provided crop insurance oversight training to 2,500 FSA personnel. This training helps RMA and insurance providers monitor crop conditions and producer behavior during the growing season through on-site FSA inspections. USDA's 2001 Compliance Report to Congress noted that RMA has reduced program costs an estimated $94 million by preventing payments on potential fraudulent claims. Although prevention efforts and implementation of the Act have been major priorities for RMA, traditional investigation and criminal, civil, and administrative processes are continually ongoing and have generated recoveries of approximately $35 million in overpaid indemnities.

APRA also required the use of data mining and data warehousing "to administer and enforce" the crop insurance program. The Center for Agribusiness Excellence (CAE) contract requires an annual spot check list be extracted from the data warehouse through data mining. The purpose of the spot check list is to identify producers who should have growing season inspections performed. The spot check list is then forwarded to FSA after RMA's six Regional Compliance Offices review and revise the list. Producers on this list were identified through data mining utilizing five scenarios:

? Triplets - Agents, adjusters, and producers linked anomalous behavior suggestive of collusion (as required by ARPA)
? Frequent Filers - Producers with consecutive multi-year losses
? Added Land/New Producer - Producers who appear to abuse the added land and new producers provisions
? Cotton Yield Switchers - Producers identified by Illinois Institute of Technology Research Institute (IITRI)
? Frequent Losers - Producers identified using criteria developed by a Regional Compliance Office Director.

The indemnities of the producers on the spot check list reduced substantially from 2001 to 2002, from over $210 million to just over $100 million. This translates into approximately $110 million in cost avoidance.

In addition, RMA is upgrading its Geographic Information System (GIS), using current mapping and imagery technology, and infrared data to assist in making compliance determinations. For example, RMA began monitoring the lay down of raisins from the air using aerial infrared images in combination with field visits by RMA personnel to deter potential crop insurance abuse due to low prices and other market conditions. In combination with favorable weather conditions, these efforts resulted in maintaining a very low loss ratio on approximately 400,000 acres of raisins. Now, RMA is looking at further integrating imagery technology into its data mining effort to reduce and prevent fraud.

GIS provides timely and historical imagery analysis of individual fields and tracts. A GIS workstation has been established in every regional and compliance office using Environmental Systems Research Institute (ESRI) software. RMA is also working with business partners, private industry and other government agencies to enhance our GIS technology. These combined efforts provide additional help in preventing, deterring and prosecuting crop insurance fraud through information technology.

American Growers Insurance Corporation

RMA continues to work with the Nebraska Department of Insurance, the rehabilitator of American Growers, in assuring the timely service and payment of claims. Currently, fewer than 200 open claims of the nearly 29,000 processed were pending and a few new claims continue to be filed each week.

. The transfer of 2003 crop year policies to other active companies is proceeding. All fall 2003 policies have been transferred to other companies and RMA is in the process of transferring the rest of the spring 2003 policies. Substantial work remains in areas such as completing claims processing, safeguarding crop insurance records and disposing of company property.

RMA's oversight and advisory team of four senior managers rotate their time onsite in Council Bluffs. In addition, many other RMA employees are involved in supporting this on-going effort. Although most of American Grower's employees have been separated from employment at this time, RMA acknowledges that without their assistance and dedication to getting the 2002 claims paid, this project would not have been as successful as it was. RMA also recognizes that the remainder of the crop insurance industry has assumed the American Growers producer policy business. We believe this has been a very good example of federal-state regulatory cooperation.

Although the final accounting analysis of American Growers remains incomplete, it appears the company may have made management and/or operational decisions prior to 2002 that caused its continued survival to be dependent on earning sizeable underwriting profits for the 2002 reinsurance year. With a greater than normal loss year, the underwriting gains did not materialize, leaving the company unable to meet expenses. As a result, RMA recognizes that closer scrutiny of company expenses in the future is desirable.

Secretary Veneman recently charged RMA to "examine its own authorities and processes to ensure effective oversight of the industry." RMA has determined that additional reporting and review is necessary to anticipate insurance company problems in advance. RMA is considering several changes in its authorities and organizational structure to increase oversight of the companies participating in the Federal crop insurance program.

Premium Discount Plan

Converium and Crop1 Insurance companies, under section 508 (e) (3) of the Federal Crop Insurance Act, submitted the Premium Discount Plan (PDP) to the FCIC Board. The Board recommended approval of PDP if RMA determined that Crop1 and Converium met the requirements of the Act and the other procedures established by the Board. After rigorous review and approval by the Board, RMA authorized the PDP in seven states for five crops in each state for the 2003 Crop Year.

Under PDP, the premium paid by producers to purchase crop insurance was reduced commensurate with cost savings achieved by Converium and Crop1 primarily through the use of their enhanced computer operating system and use of affiliates to make insurance more accessible to producers. Converium, the SRA holder, has recently discontinued its relationship with Crop1. RMA is working closely with these entities to ensure that services to producers are completed correctly and in a timely manner for all 2003 policies purchased through Crop1. Because approval was based in part on the relationship between Crop1 and Converium, the existing PDP program has not been approved for Crop Year 2004. However, PDP can be resubmitted for approval for the 2004 crop year. RMA recently published procedures by which any reinsured company may apply to offer a premium reduction plan, under strict standards for approval and operation. These procedures were reviewed and commented on by independent insurance companies. RMA has and will continue to exert careful regulatory oversight of these types of programs to ensure compliance with federal law and the provisions of the Standard Reinsurance Agreement, particularly with respect to the proper use of licensed agents, producer service, and illegal rebating and tying prohibitions.

Basic Provisions

RMA has incorporated the final requirements as mandated by ARPA into its Common Crop Insurance Policy for Basic Provisions. We recognize that there are several questions surrounding these changes and hope to publish the Basic Provisions in the near future.

Information Technology & Common Computing Environment

RMA's FY 2004 request of $78.5 million for Administrative and Operating Expenses represents an increase of about $8 million from FY 2003. This budget will support increases for information technology (IT) initiatives in the amount of $5.5 million. These IT funds are targeted towards the continual maintenance and enhancement of the corporate operating systems necessary to run the program.

This budget also includes a funding request of about $8.7 million for information technology for RMA under the Common Computing Environment (CCE) in the budget of the Chief Information Officer. RMA has an aging information technology system, of which, the last major overhaul occurred about 10 years ago. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and FSA. The funding will also provide for the development of a new information technology architecture.

Standard Reinsurance Agreement

The Standard Reinsurance Agreement (SRA), the Livestock Price Reinsurance Agreement, and the Aquatic Crop Reinsurance Agreement are considered cooperative financial assistance agreements between the FCIC and the insurance company named on the agreement. Each reinsurance agreement establishes the terms and conditions under which the FCIC, with delegated authority to RMA, will provide subsidies and reinsurance on eligible crop insurance contracts. The current SRA has been in effect since 1998 and includes a provision for renegotiations on an annual basis (from July 1 to June 30) provided the Department gives notice at least 180 days in advance. ARPA authorizes the Department to renegotiate the SRA once before 2005. In December 2002, USDA announced that the RMA's Standard Reinsurance Agreement and Aquatic Crop Reinsurance Agreement would remain in effect for the 2004 reinsurance year. RMA plans to announce renegotiation of the SRA and the ACRA effective with the 2005 reinsurance year in the coming weeks.

CONCLUSION

Since the passage of ARPA, RMA has been very active in accommodating the needs of American producers through additional products. RMA has reduced program costs by preventing payments on potential fraudulent claims. Data mining efforts successfully reduced indemnities by approximately $110 million. Improvements and enhancements are being made to GIS, infrared, and other information technologies as well as the Common Computing Environment. New specialty crop and livestock pilot programs are currently underway. Education and outreach programs have been enhanced and expanded to help more producers learn how to better mitigate their risks. RMA continues to serve producers that have been plagued by excessive drought. As demonstrated by my testimony today, RMA is proactively striving to fulfill Secretary Veneman's continued commitment to better serve our nation's producers.

Thank you, Mr. Chairman and members of the committee. At this time, I will respond to any questions.