EXECUTIVE SUMMARY

Congress authorized the federal crop insurance system to offer premium reduction plans for farmers in 1994 and again in the Agriculture Risk Protection Act (ARPA) of 2000. The premise is simple: If an insurance company is willing to meet USDA's Risk Management Agency (RMA) criteria for administrative and operating efficiencies, the savings can be passed on to farmers in the form of Premium Reduction Plan (PRP) policies.

Some large insurance companies and agents are attempting to stop RMA from spending FY2006 dollars to administer PRP on federal crop insurance. This is both bad federal policy and bad for farmers. To accept such an amendment tells farmers Congress cares more about insurance company profits and agent commission checks than about helping farmers save money.

Occidental Fire and Casualty Insurance of North Carolina (Occidental) and its managing general agent, Crop 1 Insurance (Crop 1), have been approved to offer PRP. In an effort to make PRP broadly available they have appointed over 400 independent agents in 15 states who have written over 16,000 farm policies. Additional companies have applied to sell PRP, but have not yet been approved pending the current RMA rulemaking or, in some cases, were not approved for other reasons.

Occidental, Crop 1, their employees, licensed agents and, most importantly, their farmer customers will be the victims of any precipitous act by Congress. What is their "crime"? They applied in good faith for a federal government program that was approved by an agency of the federal government.

PRP's success has companies which have not yet been approved to sell PRP nervous. Why? Farmers have shown they want to save money and reduce risk by purchasing higher coverage levels with PRP. The attacks on PRP and its providers come down to an issue of competition among crop insurance companies. Rather than competing in the marketplace, some companies are asking Congress to effectively kill the PRP program along with the first and only company approved by the federal government to provide farmers a price discount on their crop insurance. Reduced competition will enable large, existing insurance companies to retain higher profit margins and market share.

Prior to PRP, crop insurance companies didn't compete on the farmer's cost for insurance; rather they competed with each other on agent commissions. Companies "recruited" other firms' agents by offering higher and higher commissions, leading to the departure from the marketplace of companies that could not afford the bidding war. This practice continues today.

Perhaps the most significant risk to the viability of companies approved to offer the federal crop insurance program is continued escalation of commissions. This was one of the factors leading to the collapse of American Growers and it still occurs today. Crop 1 has evidence other companies are offering its agents in excess of 20% commissions if they will move their farmers from Crop 1. To date our agents have resisted these predatory attempts to undermine the PRP's agent delivery force since they believe in the program.

RMA is expected to complete its formal rulemaking updating PRP participation in the next several weeks. When the rule is released, it is expected all companies that wish to sell PRP will be required to apply or reapply for approval. This is fair.

If the issue is really the merit or value of PRP rather than marketplace competition - as some allege - then Congress should stop talking with insurance companies and start talking directly with farmers for whom the crop insurance program was created to benefit. They are best positioned to discuss the relative merits of programs designed for their benefit. Crop 1 and its agents are eager to cooperate in any legitimate effort to make a good program - one with obvious farmer benefit - better.

In the meantime, opponents of PRP and critics of RMA want Congress to accept an amendment to the FY2006 agricultural appropriations bill based on distortion, myths and rumors.

Below are the myths and facts being circulated about PRP and Crop 1:

Myth: Crop 1 is a "government-sponsored monopoly" because it's the only firm selling PRP.

Fact. Crop 1 is simply the first company to sell PRP because Occidental's application, naming Crop 1 as its crop insurance general agency, was approved by RMA. Six other companies have applied but have not yet been approved. We hope other companies will be approved to offer savings to farmer in the near future.

Myth: Crop 1 sells insurance only over the Internet.

Fact. Crop 1 has over 400 independent agents selling PRP in 15 states. Crop 1 invested over $3 million in software and an IT platform allowing its agents to provide faster, more comprehensive evaluations and service to farmers. This is part of the reason why Crop 1 has met or exceeded every requirement of RMA to sell PRP. While other crop insurance companies may have upgraded their IT systems, the benefit of these upgrades are not passed along to the farmers in the form of premium reductions.

Myth: Crop 1 is "cherry picking" - selling only in low-risk states and to large farmers.

Fact. Crop 1 is in 15 states, including high-risk states such as Texas and North Dakota, and plans to expand to six additional states in 2006. For the 2004 crop year - the last year for which the most recent statistics are available -- by policy, 66% of Crop 1's policies insure less than 255 acres. Approximately 60% of Crop1's farmer customers operate less than 500 acres; 21% have between 500-1,000 acres. Only 19% are larger farmers with over 1,000 acres.

Myth: Farmer service suffers with PRP

Fact: Over 94% of PRP policyholders renewed their PRP policies this past year. Over 95% of the PRP policyholders who had a claim renewed their policies. Expert reviews by recognized ag economists suggest that PRP is likely to lead to more professional service, not less.

Myth: Crop 1 is operating without proper RMA oversight.

Fact. USDA's Chief Economist Dr. Keith Collins called Crop 1 "The most scrutinized crop insurance company" in his memory. Crop 1 not only succeeded in winning approval to sell PRP, but has also been audited, reviewed and reaudited throughout its three years of operation. Any amendment to stop PRP effectively punishes Occidental, Crop 1, and their agents for being successful. The question needs to be asked: Could other firms selling multiperil crop insurance at regular government-set rates withstand the same scrutiny?

Myth: Only Crop 1 opposes an amendment to limit PRP.

Fact. Occidental, Crop 1, their 400 insurance agents, and thousands of farmer policyholders oppose the amendment. And, anyone wanting to avoid another crop insurance company bailout should oppose the amendment as well.

FORMAL TESTIMONY

Chairman Chambliss, Senator Harkin, members of the committee, my name is Billy Rose, and I am president and chief executive officer of Crop 1 Insurance, a privately held crop insurance provider in Urbandale, Iowa.

I want to thank the Chairman for convening this oversight hearing to review, in part, the significant merits of the premium reduction plan (PRP) authorized under Sec. 508(e)(3) of the Federal Crop Insurance Act (FCIA). While I won't deal with our specific comments on the RMA rulemaking to implement Sec. 508 (e) (3) of the FCIA, I ask that my formal statement, including Crop 1's formal comments on USDA's proposed rule, be made a part of the hearing record.

As the committee knows, Occidental Fire & Casualty Insurance of North Carolina, with its managing agency Crop 1 was the first to apply and be approved by USDA to provide PRP, or what we call our Premium Discount Plan (PDP). We welcome the opportunity to explain how Occidental and Crop 1 have made PRP work, to provide insight into how other companies can offer farmers and premium discount on their crop insurance, and, hopefully, to dispel rumors and innuendo perpetuated about not only PRP, but also Crop 1 as a company.

Crop 1's estimates show PDP has saved farmers over $1 million in premium cost in the last two years. It is important to note this premium reduction is strictly from expense savings. The farmer-paid portion of the premium available to pay losses has not changed as a result of the PRP. Thus, this premium reduction does not increase risk for insurers, reinsurers, the FCIC, or the American taxpayer.

Crop 1's PRP product is available in 15 states, many of which are represented by the members of this subcommittee. To date, Crop 1 has sold policies in 682 counties in those states. And, given the opportunity to service more farmers in more states, we will expand our service in a prudent, manageable business manner.

It is our understanding six other companies applied to RMA for approval to sell PRP products prior to RMA beginning its current rulemaking process. It is Crop 1's hope that some or all of these companies will be approved because we strongly believe enhanced competition is good for the industry, the American farmer, and taxpayers.

PHILOSOPHY, HISTORY, INNOVATION, OPERATION OF CROP 1

The business philosophy of Crop 1 agents is simple: Provide farmers the best possible crop insurance product -- with good service -- at the best price. We and our agents can successfully deliver on this philosophy because we've developed the technology and processes necessary to provide coverage and services to producers while controlling our administrative and operations expenses, coming in within the administration and operating (A&O) expense allowance provided by USDA.

Our goal has always been to help farmers reduce their insurance costs and reduce the time it takes agents to analyze the different risk management options available to farmers today. Before founding Crop 1, I managed a business helping farmers obtain loans and crop insurance. I saw first hand how hard it is for many farmers to make ends meet. More importantly, as a crop insurance agent I saw how difficult it is for them to come up with the extra cash to buy the higher levels of insurance coverage they actually needed. In addition, I saw how much time it takes to analyze all the different crop insurance options available to farmers. This is especially difficult when evaluating the marketing alternatives that must be considered when developing a risk management plan.

We decided something needed to be done to help the American farmer reduce his crop insurance cost and to help agents better analyze the different risk management options with their farm customers. This led to the development of Crop 1.

We worked hard to ensure our program complied with all the rules and regulations governing the crop insurance program while offering a savings to our farm customers. We also worked closely with our agents, who now number over 400, to develop a program that works for them and helps them provide better service to their farm customers.

It takes a lot of hard work by a dedicated team of employees at Crop 1, a team largely made up of people who, like me, have lived in rural America. This teamwork allows us to achieve what we set out to do: We help farmers purchase higher levels of insurance coverage without significantly increasing their costs.

As part of our investment in technology, we developed software enabling agents to efficiently analyze years of history and provide counsel and advice to their farm customers. We developed Internet websites for all of our agent affiliates, and continue to enhance those websites with information for both agents and their customers.

Today, Crop 1 offers PDP on all federally reinsured crop insurance programs except CAT, and offers farmers a guaranteed savings of up to 10.5% on the farmer-paid premium. PDP is available for all crops in Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas, Washington and Wisconsin.

It is important to note the reduced premium (savings) is strictly from expense reductions and that portion of the farmer premium available to pay losses does not change. Thus, this type of premium reduction does not bring more risk to the insurer, reinsurer, or federal government.

We are fortunate to have a well-managed insurance company supporting us, a company which also believes in our goal. Occidental Fire & Casualty of North Carolina has a surplus of over $100 million. More importantly it has senior management with many years of crop insurance experience. Attached is a letter from Ken Coon, senior vice-president of Occidental. Crop 1 collaborates closely with Occidental, which in turn provides oversight and support, as discussed in the letter from Mr. Coon.

In addition to support and oversight from Occidental, PDP is backed by Occidental's owner - a privately held company with more than $800 million in surplus and five highly rated private reinsurers. This year our reinsurance treaty was over-subscribed and we have excellent reinsurance support for our program.

As the members of the subcommittee can readily see, Occidental and Crop 1, with strong financial backing, intend to be in the crop insurance business for a long time, providing continuing service and innovation to all our farmer customers.

WHY PRP AND WHY NOW?

The issue before us is quite simple. Is a federal program allowing premium discounts to farmers in need of affordable crop insurance a good idea? Or put another way, should companies like Crop 1 - and other firms which can be expected to be approved to sell PRP - who are providing the best available crop insurance product at the best possible price to the farmer, be permitted to continue to offer this valuable service?

The answer, based on our experience, is an unequivocal "yes." However, our experience also suggests not all producers and agents may want PRP. Even so, the bottom line is that Crop 1 strongly believes producers should have the option to purchase crop insurance at a discount. We believe in free markets, competition, and playing by the rules.

Many on this committee participated over the years in various overhauls of the federal crop insurance program, including the efforts which led to authorizing PRP. As you'll recall, Congress enacted PRP authority in 1994 to give farmers more options to manage risk by allowing for price competition among crop insurance providers, all part of the broader goal of increasing farmer participation and increasing farmer coverage levels in the federal crop insurance program.

Such forward thinking is axiomatic to successful modern business. Competition spawns innovation, and innovation, properly managed increases quality, improves service, and lowers price. This is why we have PRP. It is an innovation sorely needed in an industry just beginning to move into the 21st century.

Congress, in authorizing PRP, recognized risk management tools and least-cost production are not mutually exclusive. Enhanced competition provides incentive to others, particularly smaller companies, to participate in the crop insurance market. Let's not forget: The crop insurance industry, like much of production agriculture, is consolidating. In 1985, there were more than 50 companies in the crop insurance market; by comparison in 2002 - at the time Crop 1 entered the market, the number of companies participating in the program was in the low teens, with the two largest companies controlling more than half of the market.

There are those who allege PRP will "destabilize" the crop insurance industry. We submit PRP, rather than upsetting the industry balance, serves to stabilize and vitalize the crop insurance industry so it can provide to farmers what Congress intended: Readily available - and affordable -- crop insurance coverage that meets an individual farm operation's unique situation and demand.

One of the primary benefits of PRP is it causes those crop insurance companies who want to offer a PRP to operate within the A & O expense budget proscribed by the FCIC. Today, some companies have operating costs exceeding that A & O budget formula. These companies are forced to rely on speculative underwriting gains to cover operating expense. This is bad business.

When we have a year or years with poor weather and/or bad prices, companies relying on underwriting gains may not be able to pay their operating expenses. Losing crop insurance providers is what destabilizes the industry. This has happened in recent years in part because companies have operating costs exceeding A & O reimbursement, e.g., the collapse of Am Ag, formerly a company located in Council Bluffs, IA. The PRP program protects companies, the American farmer, and the American taxpayer from such situations because it causes them to operate within their A & O budgets.

If companies must rely on underwriting gains to pay their operating expenses they can only realistically operate in states where they are fairly confident they will receive an underwriting gain. However, under PRP a company can be confident it can pay its bills even without an underwriting gain. This "Live Within Your Means" strategy permits a firm to go into higher risk states where it has historically been difficult to generate underwriting gains. This is why in 2005 much of Crop1's volume was generated from higher risk areas in North Dakota and Texas

We do not believe companies should be forced to offer a PRP. Many agents and companies may choose to operate with the traditional business model. They should have that right. But, we believe that the traditional model presents a greater risk to the industry and American taxpayers.

We believe PRP enhances the ability of a new company like Crop 1 to enter higher risk crop insurance markets For example, this past year Crop 1 expanded into Texas. Historically, loss ratios in Texas have been relatively high. Without PRP, I doubt that we would have entered the Texas market. However, with PRP we not only entered the Texas market, we added more volume this past year in Texas than we did in any other state, and by a wide margin. We believe that this is strong evidence that we are not attempting to "cherry pick". Mr. Chairman, there are not many cherries grown in Texas.

PRP is the logical next step in the evolution of the crop insurance industry. When first established, federal crop insurance was available only to drought-ravaged Plains states; today, crop insurance is available in all states. For decades, federal crop insurance was available only for grains, oilseeds and other program crops; today, it is available on almost all crops, including revenue coverage's and specialty crop production. In 2000, with passage of the Agriculture Risk Protection Act (ARPA), Congress added to the evolutionary process, providing first time authority to pilot test livestock risk protection insurance, giving livestock producers a much-needed risk management tool previously denied them.

ARPA 2000 also included language restating the need for less expensive federal crop insurance and enhanced price competition, reinforcing congressional intent to authorize crop insurance providers the opportunity to offer PRP products.

Prior to each of these landmark shifts, some clamored such a departure from the traditional system of crop insurance would mean the end of - or at the very least, severe damage to -- the crop insurance industry. However, each time Congress stood by its commitment to enhance farm risk management options, and today we see an industry where these predicted disasters are now revenue centers for crop insurance companies. So much for Chicken Little. The sky did not fall.

Some critics assert because nearly 80% of eligible acres were enrolled in the federal crop insurance program in 2004, innovations such as PRP are unnecessary. Seventy-five years ago these same naysayers would probably have claimed since we farmed 80% of the arable farmland in the U.S., we didn't need tractors.

In fact, what has happened since RMA added price competition into the expanding crop insurance menu is exactly what AgRisk Management's Dr. Bruce Babcock and Dr. Dermot Hayes predicted in their outside review of RMA's proposed rulemaking. Consider the following excerpts from this review:

"Agents will attempt to forestall competition through political pressure or other means ... (raising) all sorts of issues about how premium reduction plans are not good for the industry. For example, concerns raised about small, minority and limited resource farmers can be viewed as an attempt by those with a vested interest in the current system to derail competition."

What is occurring today is exactly what Dr. Babcock and Dr. Hayes predicted earlier this year. I am sure you have already heard quite a variety of false statements regarding PRP, as perpetuated by some who represent "The Big I" insurance lobby and others.

In their independent expert review of PRP, Dr. Babcock and Dr. Hayes emphasize several other points, concluding that as price competition within the FCIC program moves forward, it can be expected "the agent force will have a higher opportunity cost of time and they will become more professional ... (causing) the bundle of services that agents provide (to) change. Agents will provide only those services that farmers truly value ..."

Another way to look at these changes is through the eyes of GlobalAgRisk, Inc.'s RMA-commissioned outside review, which analyzed the average cost of selling and servicing a crop insurance policy. The study concluded that if companies offered a premium discount similar to that offered by Crop1 the past several years (3.5% of base premium) companies would have about the same amount of A & O expense reimbursement (even after adjustment for the new SRA) as they had in 1999. GlobalAgRisk also noted that it was "Not aware of any evidence that would suggest the average cost to sell and service a crop insurance policy has increased significantly over the past five years." In addition they recognized that had the new SRA not changed reimbursements to the premium subsidy structure for the four crops analyzed, "A & O expense reimbursements per buy-up policy would have increased by approximately 20 percent higher than it was in 1999."

Increasing participation was not the only reason Congress authorized PRP. Congress decided price competition among crop insurance companies was not necessarily a bad thing; in fact, Congress correctly reasoned price competition would bring benefits not only to farmers, but also to the crop insurance industry as a whole. Crop 1 agrees.

While it is important to keep acreage enrollment high, it is equally important to let premium price competition keep prices low, allowing farmers to buy higher coverage. Giving farmers the opportunity to buy higher levels of coverage without significantly increasing their operating cost was one of my goals in creating Crop 1.

The industry's goal - and certainly the explicit intent of Congress in 1994 and 2000 - is to protect farmers from risk, allow them to choose coverage levels appropriate to their individual risk management needs, and, implicitly, to protect American taxpayers from costly disaster programs and insurance company bailouts. As noted in the attached farmer and agent letters, we have proven that PRPs encourage farmers to buy higher levels of coverage.

PRP-enhanced price competition and innovation among companies are key to maintaining high farmer participation levels, increasing coverage levels, and to staying in business in an industry during years where there may be no underwriting gain.

It's in the farmer's best economic interest and that of the crop insurance industry to keep competition among remaining crop insurance companies as robust as possible while operating within a budget that does not rely on uncertain underwriting gains. This is what PRP helps ensure. Crop 1's success is tangible evidence of this fact.

Prior to PRP, crop insurance companies didn't compete on premium prices offered to farmers; rather they competed with each other on agent commissions. Companies recruited other firms' agents by offering higher and higher commissions, leading to the departure from the marketplace of companies that could not afford the bidding war. Crop 1 reiterates: PRP allows companies to compete not on which firm can pay the most to an agent, but on price and service to their customers.

Crop 1 embraces universal availability as the foundation of crop insurance protection. However, with PRP, universal availability takes on a new dimension. Even though Crop 1 does not have a large crop insurance book, it has devoted considerable resources to helping its agents inform farmers of the PDP option. This has included sponsoring trade show exhibits, magazine ads, radio spots, advertising over satellite news networks, Internet websites, direct mail, and e-mails. Third parties have reviewed Crop1's prospect lists and found them to be "evenly balanced" among market segments. Crop1 has certainly not denied access to eligible farmers, as PRP opponents have suggested.

PRP opponents also argue that a farmer's crop insurance purchasing decision is complicated by factoring in price. Crop 1's experience demonstrates our farmer customers are not daunted by shopping price. Farmers expect to factor price on everything to do with their operation, so they welcome the ability to compare prices among crop insurance providers.

The Occidental/Crop 1 experience shows that given the ability to shop for crop coverage among providers, some offering PRP and others not, farmers seek the best package of coverage for their farming situation. Just as not all agents align with a company providing the highest commission, not all producers sign up with a company offering the lowest premium. There is balance, equilibrium not achievable without enhanced competition.

One of our Iowa customers said it best, "The premium discount enabled us to increase our coverage level with the same premium dollars. We feel it is very important for the crop insurance structure to be more of a 'free enterprise' and less of a bureaucracy." (Emphasis added)

PRP OVERSIGHT WELCOMED

Crop 1 is the best example - because it's the first and only example - of how Congress' foresight in authorizing PRP offers smaller companies a chance to compete effectively with larger firms. A marketplace dominated by a few large companies robs farmers of choices and cost savings. Market domination also limits industry innovation because it removes incentives for change. Managing general agencies and their policy-issuing companies applying for PRP authority are being required to demonstrate that their cost savings are realistic and demonstrable so as to prevent unfair competition based upon pie-in-the-sky cost savings projections. At the same time, RMA should revoke approval of any company offering PRP, which does not meet the federal standards of performance.

CONCLUSION

Occidental and Crop 1 commend Congress for having the foresight to authorize PRP in 1994 and reinforce that effort in 2000; we also applaud USDA for seeking to make permanent the process and criteria by which companies apply for and are approved to offer PRP, as well as providing the oversight critical to PRP's success.

As the only company currently approved by USDA to offer PRP products, we fully understand our PDP program is a case history which can be studied by this committee and others who need to understand how well PRP works in the real world when offered by a company which takes its responsibility to the farmer customer seriously.

PRP is the latest step in the nearly 75-year evolution of the federal crop insurance program. Each time innovation has been proposed for the crop insurance program, there has been resistance, and ultimately, that resistance has been shown to be unwarranted. Crop 1 is confident history will repeat itself.

Given an opportunity to grow and expand as more companies enter the marketplace, PRP will become an even more important aspect of farm risk management, if only because PRP enhances competition among crop insurance providers, and inevitably leads to better products and services for the farmer customer.

Crop 1's experience demonstrates over and over again that including price comparison in the crop insurance shopping formula is a welcome improvement for farmers who constantly battle to develop the best possible combination of crop insurance options for their particular farming situation. To paraphrase one of our Iowa customers, shopping for crop insurance needs to be more free enterprise and less bureaucracy.

For the American farmer struggling to attain and maintain least-cost production, Crop 1 and its PDP program represent the first opportunity within the federal crop production program to shop and compare crop insurance coverage by price. This allows Crop 1 to deliver again and again on its business philosophy: We provide farmers the best available crop insurance products and service at the best possible savings.

Mr. Chairman, I thank you and the subcommittee for your attention, and I'd be happy to answer any questions you may have.

Respectfully submitted,
Billy Rose
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