STATEMENT BY
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ON BEHALF OF FARMERS MUTUAL HAIL INSURANCE COMPANY OF IOWA
BEFORE THE UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

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Chairman Roberts, Ranking Member Stabenow and distinguished Members of the Senate Agriculture Committee, I would like to thank you for having me here today to testify about crop insurance and the vital role it plays in providing risk management to farmers across the country.

My name is Ron Rutledge, and I am the CEO and President of Farmers Mutual Hail Insurance Company of Iowa (FMH), a post I have held since 2010. I also serve as Chairman of the Board and have been a proud FMH employee since 1981 when I joined the company full time in the Electronic Data Processing Department. I am a graduate of Drake University, and during my career I have also worked as an agent and a crop hail adjuster.

W.A. Rutledge founded Farmers Mutual Hail in Early, Iowa in 1893. From the beginning, FMH provided crop hail insurance to Midwestern farmers. In 1915, FMH entered the reinsurance market, and the Rutledge family has been proud to oversee the continued growth of the company for more than a century. FMH celebrated its centennial in 1993 and entered the multi-peril crop insurance market in 1999. Now in its 125th year, FMH writes insurance policies across the nation in 40 states and we are committed to serving our farmers and ranchers through generations of their families and ours.

I'm also Chairman of the Board of the Crop Insurance and Reinsurance Bureau (CIRB) and am on the Board of Directors for the National Crop Insurance Services (NCIS). CIRB unites crop insurance companies, reinsurers and brokers to provide a proactive voice for the industry in Washington, D.C. Its mission is to preserve crop insurance as a critical component of the farm safety net. NCIS, a non-profit based in Overland Park, Kansas, provides a unique suite of services to the crop insurance industry, from actuarial and analytical support to the development of crop loss adjustment standards and industry-wide training for both company staff and industry loss adjusters.

Over the years, and particularly since the adoption of the Agriculture Risk Protection Act (ARPA) in 2000, crop insurance has become a cornerstone of risk management for farmers and ranchers across the country. Today, more than 1.1 million crop insurance policies are sold to farmers each year by 16 private-sector crop insurance companies. Farmers Mutual Hail is proud to be one of these companies that serves America's farmers and ranchers.

Crop insurance companies, also known as Approved Insurance Providers or AIPs, underwrite crop insurance policies, which means we share in bearing the risk of crop insurance policies, so the taxpayer is not entirely on the hook for losses. We hire agents to sell policies and adjusters to assess and confirm losses. We invest in technology, training and services to ensure the integrity and efficiency of crop insurance. We also work with RMA to implement policies such as conservation compliance.

AIPs, as well as the agents and adjusters that service crop insurance policies, represent 20,000 jobs, primarily in rural America. This private sector delivery system allows the Risk Management Agency (RMA) that oversees crop insurance at the US Department of Agriculture (USDA) to be one of the smallest USDA agencies with fewer than 500 staff.

As an industry, we are proud to be an integral part of the rural economy, but often the breadth and depth of coverage provided by crop insurance is overlooked. Here are some significant facts about the industry:

- Almost 280 million acres were covered by crop insurance during the 2016 crop year. As context, there are about 300 million acres of cropland in the United States.
- Individual crop insurance policies are available to more than 100 commodities from apples to almonds and from cotton to corn. Whole farm revenue policies now make crop insurance accessible to every single commodity and to even the most diversified farms.
- Crop insurance protected almost $95 billion in liabilities during the 2016 crop year.
- After proof of loss, indemnities of more than $3.7 billion have been paid to date to farmers and ranchers to keep rural economies moving during the 2016 crop year. This is one of the lowest loss years in decades. During the devastating drought of 2012 more than $17 billion in indemnities were paid to keep rural economies from collapsing.
- Crop insurance uses current-season market prices to determine premiums, coverage, losses and indemnities. Market don't respond to crop insurance; crop insurance responds to markets.
- Crop insurance is available in all 50 states and is purchased by farmers in all 50 states.
- Some of the largest loss ratios (losses compared to premiums) in the 2016 crop year were in Northeastern states impacted by drought. New Hampshire, New York and Rhode Island all experienced loss ratios higher than 1.0 (indemnities paid were higher than premiums for the year), as well as Louisiana, Arkansas, North Carolina and Nevada.

Farm Bill

Support for crop insurance unites a broad swath of rural interests, and the organizations represented at this hearing have shown their support by being active members of a crop insurance coalition that represents farmers, ranchers, agents, lenders, ag input companies, conservation groups and crop insurance companies such as FMH. <u>As companies, we stand united with these partners in working to protect and preserve crop insurance that is affordable and effective for producers of all sizes, crops and regions and is delivered by the private sector</u>. Yet despite the overwhelming support for crop insurance among those most familiar with the needs of farmers and ranchers, crop insurance continues to be an ideological punching bag for some interests that fail to recognize its value to the rural economy.

Heading into the 2018 Farm Bill we know we are going to face opposition from those who wrongly believe that the nation's budget woes can be balanced on the backs of rural America and who see farm programs, including crop insurance, as a bank account to draw down at will. During the upcoming farm bill debate, we fully expect to see attacks that 1) pursue cuts to the private sector delivery system for crop insurance, 2) seek cuts to premium discounts for farmers, and 3) demand means testing for crop insurance. <u>We oppose each of these</u>

proposals to harm crop insurance and urge the Senate Agriculture Committee to stand united with us in that opposition.

Private Sector Delivery

We are proud to deliver crop insurance to America's farmers and ranchers. At FMH we view crop insurance as a successful public-private partnership where the program is federally regulated, but delivered by the private sector. Federal regulation ensures that farmers cannot be refused crop insurance protections and that individual companies cannot raise premiums or impose special standards on any individual producers. Premium rates are set by the government and are based on actuarial soundness. Losses are shared by farmers, private sector companies such as Farmers Mutual Hail, and the government. Importantly, the government, and therefore taxpayers, also share in any gains during the good years.

Time and time again the private sector has shown its value by making it possible for farmers who have losses and have met their deductible to typically receive indemnity payments in less than 30 days. The alternative, ad hoc disaster assistance, often took more than a year to get assistance to farmers. It is this efficiency that allows rural lenders to rely on crop insurance when providing operating credit to farmers and ranchers.

Since 2008, the private sector has absorbed cuts estimated at $12 billion over 10 years, including cuts in the 2008 Farm Bill and through administrative actions taken in 2011 in the Standard Reinsurance Agreement (SRA). Despite the positive track record of the private sector in delivering crop insurance to all 50 states, supporting 20,000 rural jobs and making previous contributions to deficit reduction, various proposals have surfaced to make additional cuts to the private sector delivery system.

One such proposal aims to cut billions from private sector delivery by reducing the target rate of return for crop insurance companies from 14.5% to 8.9%. As is the case with many aspects of crop insurance, there is an abundance of misinformation about what a target rate of return is and what a cut would mean for crop insurance companies.

The target rate of return is not a floor on the rate of return for companies, it is not a guaranteed rate of return, and it does not equate to profit. Rates of return for companies fluctuate with the market based on losses in any given year. In 2012 when the country was devastated by drought and commodity prices were high, crop insurance companies – including Farmers Mutual Hail - lost money. This past year, when losses were minimal and commodity prices were low, companies such as ours were able to recover many of the losses incurred in years like 2012.

Just like with farming, there will be bad years and good years for crop insurance companies. The good years are needed to recoup losses in bad years with the hope that at the end of the day the business is able to generate profit. Reducing the target rate of return would only make it more difficult for companies to generate a profit and would encourage companies to pull out of some markets where it would simply not be financially viable to continue service. High risk areas and small markets – two areas arguably most in need of the national safety net - would likely be the first places to lose crop insurance providers, thereby reducing competition in these markets.

<u>We urge the Senate Agriculture Committee to oppose misguided attempts to further cut the private sector delivery system for crop insurance</u>.

Premium Discounts for Farmers

There have been numerous proposals to cut the discount that farmers receive when purchasing crop insurance. The proposals vary in the details, but are fundamentally flawed, regardless of how the cuts are structured.

First, farmers receive a bill for their crop insurance coverage, not a check. The premium discount simply reduces the size of that bill. A farmer only receives a check for their crop insurance policy if they have a verified loss above and beyond their deductible. The average deductible is approximately 25%.

The indisputable fact is that a reduction in the premium discount for crop insurance will increase the cost of crop insurance to every farmer in every single state and for every single commodity. The premium discount is what keeps crop insurance affordable for farmers.

Likewise, any increase in the cost of crop insurance will decrease demand for the product. Economists can debate how much of a decrease in demand will result from an increase in cost, but the fundamental fact remains: if you increase the cost of crop insurance for farmers, they will purchase less crop insurance. As commodity prices continue to decline and farmers' budgets tighten, the impact of higher crop insurance costs will only be more difficult for farmers to absorb. As a reference point, recent analysis has shown that a 10-percentage-point decrease in premium assistance would increase the bill of a typical Midwest grain farmer pays by 50% for a policy at the 70% coverage level. On a policy with an 80% coverage level, the farmer's bill would increase by over 30%.

History tells us that the alternative to affordable and viable crop insurance that includes investment by farmers is off-budget, ad hoc disaster assistance that is 100% paid for by the taxpayer. This is why an increase in premium discounts and types of coverage after passage of the Agriculture Risk Protection Act in 2000 coincided with the decline in ad hoc disaster assistance. Even in 2012 when this nation was faced with one of the worst droughts ever recorded, there was no ad hoc disaster assistance.

<u>We urge the Senate Agriculture Committee to maintain the successes of the Agriculture Risk Protection Act and to oppose cuts to farmer premium discounts for crop insurance</u>.

Means Testing

Adjusted gross income (AGI) limits and premium discount caps for crop insurance have been discussed for a number of years. Specifically, the AFFIRM Act (S. 1025) includes provisions that would apply a $250,000 AGI limit and a $40,000 premium assistance cap for farmers and entities. Some support such proposals as politically expedient under the misguided belief that they would simply eliminate government benefits for wealthy farmers who "do not need support." However, the reality is much more complicated.

Federal crop insurance is, by statute, required to be actuarially sound. Over the long-term, every dollar of indemnities (payments to producers for losses above and beyond their deductible) must be equal to the assigned premium. Crop insurance premiums, just as with other forms of insurance, are based on the attributes of the risk pool, in this case consisting of all farmers participating in crop insurance. So, <u>if you apply AGI limits that remove certain farmers from the risk pool, you change the premium rates for all farmers</u>. It might be only a small number of farmers who are directly impacted by an AGI limit, but it would be a much larger number of acres impacted and would ultimately impact every single producer in the program with a change in rates. If those farmers that leave the risk pool are less risky, then the premiums for the farmers left in the risk pool will increase.

Analysis from the Government Accountability Office (GAO) found that a premium discount cap of $40,000 would have affected 26% of all of the insured liability in the crop insurance program when the study was done in 2011. So, while such caps might not impact the majority of producers, they would put a very large portion of the crop production in this country at risk.

Even USDA has called caps on premium support "ill advised," noting that regions with high-value crops, large-scale farmers and/or regions with a higher risk of crop loss would be especially hard hit. High-value crops would include things such as fruits and vegetables and many organic crops. North Dakota, South Dakota, Texas, Minnesota, California, Arizona, Mississippi, Utah and Hawaii have all been singled out by USDA as likely to shoulder disproportionate effects under a cap on premium assistance.

Ultimately, reduced participation in crop insurance because of any type of arbitrary means testing can only lead to an increase in calls for off-budget, ad hoc disaster assistance when devastation occurs. <u>We urge the Senate Agriculture Committee to oppose misguided attempts to place means testing restrictions on crop insurance</u>.

<u>Regulatory Reform</u>

The crop insurance industry is pleased with the efforts of this Committee and the Administration to review regulations for inconsistencies and inefficiencies. As an industry, we are proud of the service we provide to America's farmers and ranchers, but as a public-private partnership we must work with the public sector to ensure that regulations serve farmers, ranchers, agents, companies and taxpayers well.

The crop insurance industry has worked collaboratively in various areas to promote the integrity and efficiency of the federal crop insurance program. A specific example of these efforts includes work by industry organizations charged with both substantive and technical responsibilities to facilitate and improve new product development (through the 508(h) submission process) and approval. Other examples include industry work to address concerns and assists in implementation of the conservation compliance requirements mandated by the most recent farm bill and to analyze and offer constructive commentary in relation to the development of the Acreage Crop Reporting Streamlining Initiative (ACRSI).

As to the latter, the industry has worked to identify impediments to RMA and Farm Service Agency (FSA) cooperation and to encourage the use of industry data and analytical resources in conjunction with ACRSI. In respect to conservation compliance requirements, the industry has worked cooperatively with RMA to implement the provision and has urged regulatory relief in relation to the problematic timing of required compliance certifications by producers. The industry also has worked with RMA and the Federal Crop Insurance Corporation (FCIC) Board of Directors to better define the appropriate role for crop insurance companies in sponsoring new product development through the 508(h) process and to assess how the concepts of marketability and viability can be efficiently utilized to realistically assess these submissions at an early stage.

We look forward to continuing to work with this Committee and the Administration to ensure that regulations make sense for the private sector delivery system as well as farmers, ranchers and taxpayers.

Battling Misinformation

At the heart of many proposals to harm crop insurance is misinformation. I understand that crop insurance can be complicated and many people aren't familiar with the role it plays. Opponents of crop insurance are happy to fill the void with messages about the program that can be extremely misleading. As we head into the 2018 Farm Bill, our industry will work diligently with the broad crop insurance coalition to bring facts to the forefront. Below I have addressed some of the most common myths we face in our defense of strong, viable crop insurance that provides a critical risk management tool to America's farmers and ranchers.

Improper Payments

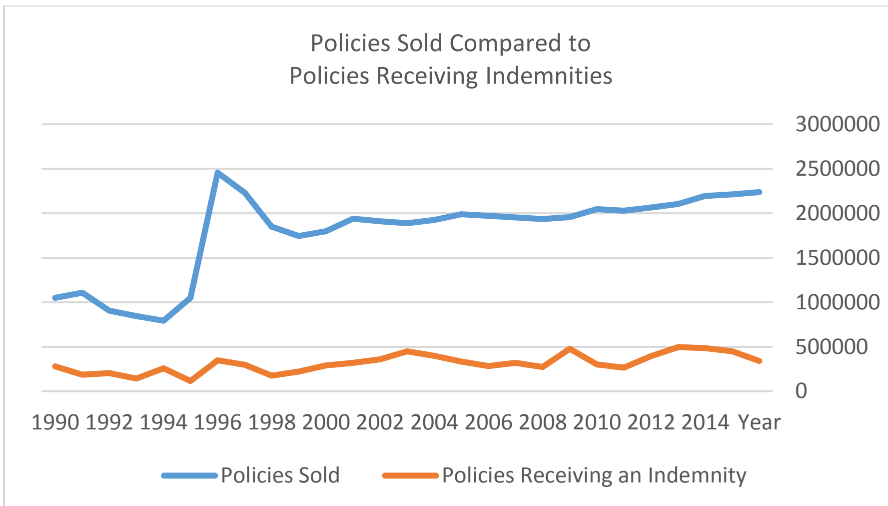
According to the Risk Management Agency at USDA the improper payment rate for crop insurance for fiscal year 2016 was 2.02%, which is almost half the average for all government programs (4.67%). Actual "fraud" rates are even lower as improper payments are defined as everything from over-payments to under-payments to simple errors such as an incorrect zip code.

Crop insurance companies are dedicated to detecting and eliminating fraud, waste and abuse in the program. Crop insurance utilizes data mining to identify potential improper payments and uses spot-checks of the work of insurance agents and adjusters to ensure an efficient, well-run program. Continued education and training are the cornerstones of these efforts at FMH. We believe possessing a sound understanding and knowledge of the policies and guidelines is critical to the successful management of the program.

Losses Required

One of the most common misconceptions about crop insurance is that it doesn't require a loss for a farmer to receive a payment. Crop insurance, just like other forms of insurance, requires farmers to meet a deductible before they receive an indemnity. The average deductible for a crop insurance policy is 25%. In other words, a farmer must lose 25% of their crop or the value of their crop before they receive any benefit from crop insurance. Even if a farmer does not meet this deductible, that farmer must still pay their premium. The vast majority of farmers who purchase crop insurance policies do not receive an indemnity payment.

On average over the last five years, 54% of our customers at Farmers Mutual Hail paid premiums out of their own pockets and received zero indemnity payments.



Source: Risk Management Agency, USDA

Availability to Many Crops

Crop insurance is not just for major row crops. Crop insurance policies are available for more than 100 crops and to farmers of all sizes in all regions. Whole Farm Revenue insurance makes insurance policies available to all farmers. In fact, the number of acres of fruit, vegetables and other specialty crops covered by crop insurance increased from 7.7 million acres in 2009 to nearly 8.3 million acres in 2015. That's an increase of 8% in just 6 years. Including Whole Farm Revenue coverage for nursery, vegetables, trees, fruits and nuts, specialty crop liabilities covered by crop insurance have increased from $7 billion in 2000 to over $18 billion in 2016. The top 10 insured commodities include specialty crops such as almonds, grapes, oranges, apples and nursery crops.

To look at it yet another way, according to USDA about 61% of the reported acreage for fruits, vegetables and tree nuts is covered by crop insurance. Most of these producers purchase coverage above the 50% level. For example, over 80% of the cherry producers in Michigan who purchase crop insurance do so above the minimum level, and over half purchase at the 70 to 75% level. In California, almond producers purchase buyup coverage on 66% of their insured acreage.

Harvest Price Option

There has been some debate around the harvest price option in crop insurance, yet very few people seem to understand the purpose behind such policies. As a crop insurance company, we see firsthand from our farmer customers the need for this type of protection. This coverage provides farmers with the replacement value of their crop when disaster strikes.

Many farmers utilize forward contracting as another way to manage the risk on their farm. If there is a natural disaster that results in a large drop in production in a given commodity, the price of that commodity is likely to increase sharply. If a farmer has a forward contract but has no crop to deliver because of a natural disaster, then that farmer will have to go to the open market to purchase the commodity to fill the contract. The farmer will have to buy that commodity at the harvest price. This is one example of the very real and practical need for harvest price policies.

The harvest price option is also critical to livestock producers who grow their own feed. If a disaster wipes out the feed production of a livestock producer, that farmer will have to enter the market and purchase feed at the going price. If the farmer has to enter the market to purchase feed at the end of the year because they lost their crop, they will need to buy feed at the harvest price.

In these scenarios, the harvest price option is not a luxury, but a tool that prevents a disaster by Mother Nature from being compounded when a farmer is forced to purchase a replacement crop at a higher price to feed their livestock or to fulfill a contract.

Of course, harvest price policies also require farmers to meet a deductible, and farmers pay an actuarial sound premium for this type of coverage.

Beginning Farmers and Ranchers

Ensuring a successful next generation of farmers is a concern to everyone involved in agriculture, including crop insurance companies. The 2014 Farm Bill addressed this issue by improving crop insurance specifically for beginning farmers and ranchers. At FMH we are now able to provide crop insurance tailored to the next generation of farmers and ranchers through higher premium discounts and the ability to build essential yield histories more quickly. According to USDA, more than 15,000 farmers utilized these benefits in 2016, and the number is growing.

The strength of our national and our ability to clothe, feed and fuel the world depends on future farm generations making the choice to keep that connection to agriculture. Promoting this through program benefits and ease of getting started is a win-win for all involved.

Ad Hoc Disaster Assistance

Attempts have been made to compare the cost of crop insurance to ad hoc disaster assistance, and in many ways, that is like trying to compare apples to oranges. Crop insurance covers more than 100 commodities and hundreds of millions of acres of farmland. Ad hoc disaster packages were often selective in the commodities or regions covered, leaving other farmers who needed assistance empty-handed. Ad hoc disaster packages also covered varying, unpredictable portions of the losses experienced by farmers and ranchers versus the predictable liabilities and deductibles in crop insurance. The bottom line is that comparing the actual cost of crop insurance to ad hoc disaster assistance is not a useful exercise because of all of these differences and uncertainties.

However, we do know that crop insurance provides farmers, ranchers and their lenders with certainty that ad hoc disaster assistance cannot provide. We also know that crop insurance provides assistance in a timely manner when disaster strikes. Once a loss is incurred and the deductible is met, farmers can often receive crop insurance indemnities within 30 days. Ad hoc disaster assistance often took a year or more to reach those in need. Farmers are always expected to pay for the protection of crop insurance, unlike ad hoc disaster assistance which is fully-funded by taxpayers. Finally, we know that ad hoc disaster assistance was often off-budget and added to the deficit in a way that crop insurance is not.

Ultimately, crop insurance is a much better deal for taxpayers, farmers and ranchers, lenders, and all of rural America.

Market-Driven

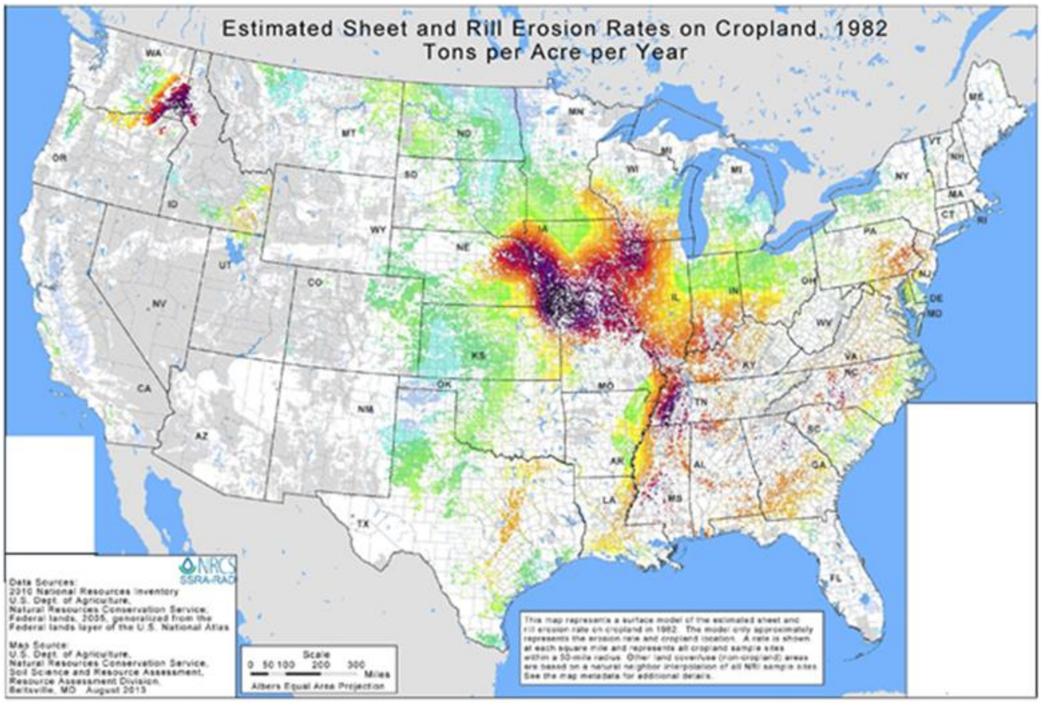
Crop insurance policies do not use an artificial price to determine coverage, losses, indemnities or premiums paid by farmers. Crop insurance uses real-time data such as various commodity exchange prices to determine coverage, losses, indemnities and premiums. As stated earlier, markets don’t respond to crop insurance; crop insurance responds to market.

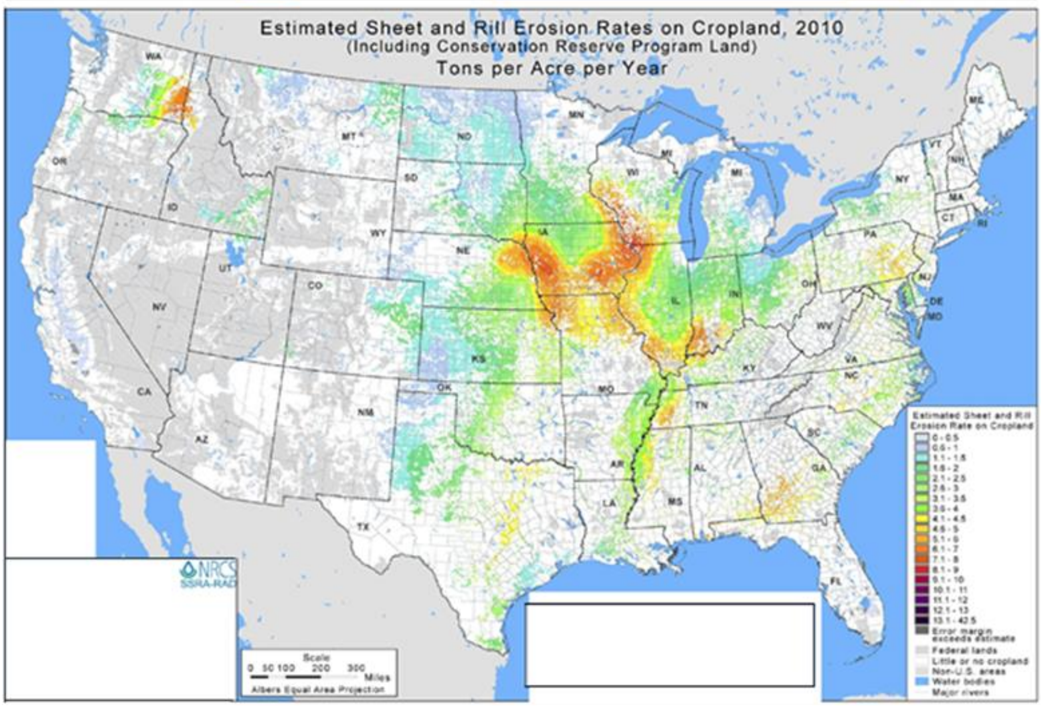
For example, if corn prices are comparatively higher than soybean prices, crop insurance will reflect that market dynamic. Crop insurance is a reflection of the market and is available for both crops.

Provisions in the 2014 Farm Bill also work to ensure that crop insurance will not distort markets. Specifically, new crop insurance products that are proposed for sale must go through a consultation process specifically to assess if there would be a detrimental impact on the marketing and production of a commodity if a new policy is approved.

Environmental Impacts

Some have claimed that crop insurance hurts the environment by encouraging farmers to tear up ground, but the data does not support this connection. Since the 1980s the acres protected by crop insurance have increased from 100 million acres to almost 300 million acres today. During that same period, USDA’s Natural Resources Inventory shows cultivated cropland has actually decreased from 376 million acres to 309 million acres. In addition, erosion has also decreased in that same timeframe, as can be seen by the below maps from the Natural Resource Conservation Service at USDA.





While environmental improvements can always be made, this data makes it very difficult to blame environmental issues in agriculture on crop insurance.

Any producer who receives a discounted crop insurance premium must meet conservation compliance provisions for highly-erodible lands and wetlands as well as sodsaver provisions. These provisions make crop insurance part of the solution for environmental health on farms, not a part of the problem.

Conclusion

Thank you again for allowing me the opportunity to talk to you today about the critical importance of crop insurance. FMH is proud to be a provider for such a critical risk management tool for farmers and ranchers, and we look forward to working with this Committee on the 2018 Farm Bill to protect and preserve the program. I look forward to answering your questions and am always happy to be a resource.