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Senate Committee on Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Ross J. Davidson, Jr., Administrator
before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies

April 8, 2004

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year (FY) 2005 budget for the Risk Management Agency (RMA). RMA continues to make rapid progress in meeting its legislative mandates to provide an actuarially sound crop insurance program to America's agricultural producers. Crop insurance is USDA's principal means of helping farmers survive a crop loss. In 2005, the program is expected to provide producers with more than $42 billion in protection on approximately 220 million acres through about 1.2 million policies.

To improve service to our customers and stakeholders, in 2003, we began an evaluation of crop insurance business processes to integrate performance and create higher productivity, and to achieve key performance goals. To hear first-hand the challenges affecting producers in the crop insurance program, we have conducted listening sessions with producers and grower groups throughout the United States; over 26 listening sessions have been held to date. It is no coincidence that the top concerns expressed by our customers and stakeholders have become the foundation of our key performance objectives in support of the Agency's mission. These objectives are: 1) Provide widely available and effective risk management solutions; 2) Provide a fair and effective delivery system; 3) Ensure customers and stakeholders are well-informed; 4) Maintain program integrity; and 5) Provide excellent service.

To effectively address the concerns and challenges within the crop insurance program, RMA's total FY 2005 budget request is $3.09 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $3,000,443,000 and for the Administrative and Operating Expenses, the request is $91,582,000.

FCIC FUND

The FY 2005 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet producers' needs. The current estimate of funding requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes $2.1 billion for Premium Subsidy, $782.4 million for Delivery Expenses, and $77.3 million for mandated Agricultural Risk Protection Act of 2000 (ARPA) activities.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's FY 2005 request of $91.6 million for Administrative and Operating Expenses represents an increase of about $20.6 million from FY 2004. This budget supports increases for information technology (IT) initiatives of $15.5 million.

These IT funds are targeted toward the infrastructure improvements and enhancement of the corporate operating systems necessary to support growth in the program as new products are developed and existing products are improved and offered for sale. Due to the rapid growth in the program, it has been difficult to maintain adequate funding for RMA's information technology system. The Agency's IT infrastructure supports the crop insurance program's business operations at the national and local levels, provides risk management products to producers nationwide and is the basis for payments to private companies reinsured by the FCIC. RMA is using system and database designs originally developed in 1994. There have been few hardware and software upgrades and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. The IT systems do not meet the minimum requirements mandated by the USDA Office of the Chief Information Officer due to advanced age and architecture. Without adequate funding of the IT requirements, the Agency will not be able to safely sustain additional changes required by new product development or changes in existing products. Future program expansion will increase the risk of system failure and possible inability to handle day-to-day processing of applications and indemnity payments.

Also, included in the total request is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a systematic process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure internal and management controls are a basic part of reinsured companies' business operations.

To support an increase of 30 staff years, $3.0 million is requested to raise RMA's employment ceiling from 568 to 598. Funding for additional staff years is necessary to strengthen the safety net for agricultural producers through sound risk management programs. The FY 2005 budget request includes five additional staff years for the Research and Development Offices, to provide necessary support to evaluate, monitor and manage contractual agreements and partnerships with public and private business sectors. The additional staff years will aid in the review and evaluation of the increasing number of new private product submissions received by the Agency each year. They will also provide oversight of privately contracted product development needed to fulfill ARPA mandates that RMA provide risk management tools for producers of specialty crops, livestock, forage pasture, hay and other underserved commodities, areas and producers.

To support the increased workload for the Compliance function, a request for 15 staff years is included. The additional staff years will provide the Compliance function the necessary support to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to establish a systematic process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. RMA's studies suggest that additional resources in this area would provide a minimum of four dollars in reduced fraud cost for every dollar spent. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

In addition, 10 staff years are requested for the Insurance Services Offices, to implement good farming practice determinations, and to adequately evaluate claims based on questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of goods farming practices. The Regional Offices of Insurance Services are in a unique position by virtue of their education in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of determining good farming practices. RMA data indicate that approved insurance providers rarely assess uninsured causes of loss against a producer for failure to follow good farming practices. With approved insurance providers operating in an environment of risk sharing, there is a tremendous need for support and incentives for tightening loss adjustment, particularly in the good farming practices area to ensure that payments for losses is consistent with the requirements of Federal Crop Insurance Act. For example in crop year 2002, of approximately 1.25 million policies earning premium, about .03 percent were assessed uninsured causes of loss. This small percentage appears to be inconsistent with data uncovered through various oversight activities. Based on 2002 indemnities of over $4 billion, if RMA determinations and reconsiderations of good farming practices had prevented only 3 percent of indemnities from being paid improperly, the resulting savings would be an estimated $121 million.

Lastly, an increase of $1.1 million is requested for pay cost. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

The FY 2005 budget request supports the President's Management Initiatives and is aligned with the Agency's five performance objectives.

- <u>Provide Widely Available and Effective Risk Management Solutions</u>

The FCIC Board of Directors (Board) will continue its work to maintain an aggressive agenda focused on addressing producer's issues and challenges in the crop insurance program. This agenda increases participation in the program, ensures outreach to small and limited resource farmers, expands programs where appropriate, affirms program compliance and integrity, and ensures equity in risk sharing.

The Board is focusing on the overall FCIC portfolio of insurance products, with new strategies to provide the greatest amount of protection. We are actively working with the private sector to find new and better ways to provide risk protection for forage, rangeland, and pasture and to address the long term production declines that result from extended drought in many areas. Priority also is directed towards identifying opportunities to expand participation in current crop insurance programs in areas with below average participation.

In addition, many of the new product development contracts, authorized by Section 508(h) of the Federal Corp Insurance Act, are coming to fruition. The Board will review these private product submissions and decide on the appropriateness of pilot testing the products.

Beginning February of 2002, RMA initiated a series of listening sessions throughout the United States to gather market feedback on issues and concerns that affect the agricultural community. From this initiative, 26 listening sessions have been organized by the Regional Offices in various locations. The focus of the meetings was to obtain feedback from farmers on what is working well in our program, factors that impact product acceptance and market penetration, what program issues need to be addressed, and whether products were meeting the needs of the agricultural sector. To gather the widest possible representation, we focused on inviting the various regional Grower Associations and agricultural interest groups, both private and governmental. The feedback from the listening sessions identified a broad theme of issues such as requests to expand products such as Adjusted Gross Revenue (AGR/AGR-Lite) and Crop Revenue Coverage (CRC), simplify prevent planting regulations, and extend crop dates. In addition, irrigation issues and the knowledge and training of insurance agents were topics of discussion.

RMA is already engaged in working toward solutions to resolve many of the issues identified at these listening sessions and, is evaluating the feasibility of many others with the legal limitations and parameters established in statute to operating an actuarially sound insurance program. In addition, the FCIC Board of Directors commissioned a Product Portfolio Review to assist in evaluating and developing a strategic product development plan. Our initial plan growing out of that review focuses on identifying and pursuing opportunities to more comprehensively provide risk coverage and other risk management solutions for producers, regions, commodities and risks. It gives priority to the development of new insurance products and other risk management solutions to fill identified gaps, including coverage for livestock, forage, rangeland, long-term drought and specialty crops; and simplifies and improves the effectiveness of revenue and other insurance products that will meet the needs of the agriculture sector.

- Provide a Fair and Effective Delivery System

RMA relies on private sector insurance companies to deliver and service risk management tools to producers. The financial agreement that compensates insurers for their service and established standards for performance is the Standard Reinsurance Agreement (SRA). The current agreement has been in effect since 1998 and needs to be updated to reflect the changing nature and scope of the program as well as recent development of the delivery system.

ARPA gave RMA the authority to renegotiate the current SRA once during the 2001 through 2005 reinsurance years. On December 31, 2003, RMA provided the required notice of cancellation of the current agreement effective July 1, 2004 and its intent to renegotiate the agreement for the 2005 reinsurance year, which begins on July 1, 2004.

On December 30, 2003, RMA issued the draft of the proposed SRA to insurance providers. The first round of negotiations with insurance providers has been completed. A range of issues was identified and a second draft of the SRA addressing those issues is near completion for review and negotiation with the companies. We are working with all insurers to have a new and equitable SRA in place by the 2005 reinsurance year.

Through this private sector delivery system, in crop year 2003, RMA provided approximately $41 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately $3.3 billion. The participation rate for major program crops was approximately 82 percent. An important part of the delivery system is having effective and useable products. RMA continues to efficiently evaluate risk management products, review and approve private sector products to be reinsured by the FCIC, to promote new risk management strategies, and ensure effective delivery of these products to agricultural producers. RMA's education, outreach, and non-insurance risk management assistance initiatives, delivered through the public and private sector organizations, further contribute to the producer's ability, skill and willingness to access and effectively use RMA's growing portfolio of risk management tools to protect their financial stability.

Under the Agricultural Management Assistance Program (AMA), Section 524(b) of the Federal Crop Insurance Act, financial assistance is authorized for producers in 15 "Targeted" States. Under this authority, and in response to the need to improve crop insurance delivery and acceptance in these states, for FY 2003 RMA offered a cost-share program for producers purchasing AGR, AGR-Lite, and spring policies with sales closing dates on or after February 21, 2003. The States in which this program was offered were: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Nevada, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. The primary goal of the program was to enable producers to buy-up to higher levels of insurance coverage, and to provide an incentive for new producers to purchase insurance. To meet this objective, RMA paid a portion of the producer premium remaining after the normal USDA subsidy was applied. Moreover, to encourage buy-up, RMA paid a higher percentage of this premium for higher levels of coverage. USDA has received many positive letters from producers, producer groups and insurance agents in many states who are pleased with the program. RMA recently announced the availability of financial assistance for crop year 2004 spring crops for the same states, consistent with new statutory requirements for the application of these funds.

In early 2004, RMA approved Occidental Fire & Casualty (OFC) and its Managing General Agent, Crop1 to sell and service crop insurance under a premium reduction plan as allowed by federal statute, and in accordance with standards and procedures established and approved by the FCIC Board. The states for which OFC was approved are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas (state approval pending), and Wisconsin. OFC is required to offer Premium Discount Plan (PDP) on FCIC insurance covering all crops in these states. Farmers who purchase crop insurance under OFC's Premium Discount Plan (PDP) will receive a discount on their portion of the insurance premium of up to 10 percent or more depending on the level of coverage they purchase. The discount (equal to 3.5 percent of the total unsubsidized premium) results from OFC passing along the cost savings generated by its cost efficient approach to delivering crop insurance.

We continue to work with the private sector to improve producers' ease of access to and awareness of risk management products; increase the emphasis on improving service coverage for underserved producers and regions; and expand the ability to reach underserved producers, areas and commodities through traditional channels and developing technologies.

- <u>Ensure Customers and Stakeholders are Well-Informed</u>

RMA has implemented an extensive national outreach and education program, including several initiatives to increase awareness and service to small and limited resource farmers and ranchers and other underserved groups and areas.

In 2003, RMA sponsored the second national outreach conference titled: *Survival Strategies for Small and Limited Resource Farmers and Ranchers*, in San Diego, California. Public and private professionals, who provide agricultural services to underserved groups, were the targeted audience. Over 300 professionals representing 45 states, 22 universities and three foreign countries convened at this conference to share ideas and develop strategies to benefit the underserved communities. During 2004, regional and local workshops will be customized in several regions to deliver proven survival strategies directly to producers. RMA is also partnering with community-based organizations, 1890, 1994, 1862 land grant colleges and universities, and Hispanic Serving Institutions (HSIs) to provide program technical assistance and risk management education on managing farming risks associated with the many legal, production, marketing, human resources and labor aspects of farm operation. RMA funded 49 outreach projects in FY 2003 totaling $4 million to provide outreach and assistance to women, small and limited resource farmers and ranchers.

During FY 2003, our education program focused on underserved states, specialty crop producers, and grants through the Cooperative State Research, Education, and Extension Service. RMA Regional Offices held 833 outreach and educational meetings during 2003, which attracted 42,020 participants.

In June 2003, RMA announced a Request for Applications for two programs. The first was to establish cooperative education agreements in states that have been historically underserved with respect to crop insurance. As a result of this announcement, 15 cooperative agreements were established totaling $4.5 million. These agreements were executed with state departments of agriculture, universities, and non-profit organizations to deliver crop insurance education to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. Specifically, these cooperative agreements will: expand the amount of risk management information available; promote risk management education opportunities; inform agribusiness leaders of increased emphasis on risk management; and deliver training on risk management to producers with an emphasis on reaching small farms.

The second program was for commodity partnership agreements to reach producers of specialty crops. A total of 35 commodity partnership agreements were established at a cost of $4.6 million. These agreements were executed with state departments of agriculture, universities, grower groups, and non-profit organizations in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Multi-state Area 1 (NV, UT, WY), Multi-state Area 2 (ME, NH, VT, CT, RI, MA, NY), Multi-state Area 3 (PA, NJ, DE, MD, WV), Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, and Wisconsin. These agreements will reach specialty crop producers with broad risk management education. In addition, efforts were continued with the Future Farmers of America organization to educate and encourage youths' participation in agriculture.

- <u>Maintain Program Integrity</u>

Our Compliance function workload has increased substantially due to the expansion of the Crop Insurance Program and the implementation of ARPA. In order to deal with the increased referral activity and to fulfill the responsibilities of data reconciliation with Farm Service Agency (FSA), 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. During the 12-month period from January 2002 through December 2002, RMA projects more than $125 million was saved by deterring or preventing potentially fraudulent claims through data mining and other related activities. Similar savings were realized for 2003 as we expanded data mining capabilities.

In 2004, we continue to develop data management and integration tools to effectively evaluate, track, and improve program compliance, integrity and to reduce the potential for erroneous payments. The need for the authority to regulate certain insurance provider business activities associated with the Federal Crop Insurance Program and the ability to perform timely and effective reviews of insurance providers became apparent in 2002 with the failure of the American Growers Insurance Company. The FY 2005 budget request includes $1.0 million for monitoring and evaluating the reinsured companies. Improving RMA's ability to monitor the reinsured companies will provide the means to perform the necessary analysis and pursue any needed corrective actions to reduce the likelihood and cost of future failures.

Recent progress in the Compliance area has been concentrated on the mission-critical tasks of evaluating and improving new processes established to prevent and deter waste, fraud and abuses. In addition, extensive progress has been made in building and adapting RMA's compliance investigation caseload reporting, tracking, and feedback systems to meet the requirements that were mandated by ARPA. RMA, the FSA, the Office of Inspector General, U.S. Attorneys' offices throughout the nation, and the insurance providers continue to work together to improve program compliance and integrity of the Federal crop insurance program by: fine tuning the RMA/FSA data reconciliation and matching process; evaluating and amending the procedures for referring potential crop insurance errors or abuse between FSA and RMA; creating an anti-fraud and distance learning training package to complete the requirements of ARPA; and detecting, prosecuting and sanctioning perpetrators of crop insurance fraud. We also have dedicated additional efforts to integrating data mining analysis into all Agency functions to assist in proactive preemption of fraud through effective underwriting and product design; exploring ways to expedite increasing sanctions requests; and establishing a fraud investigation case management and issue tracking system.

During FY 2003, RMA published ARPA mandated revisions to the Common Crop Insurance Policy, also known as the Basic Provisions. RMA proposed many changes to the Basic Provisions, including changes mandated by ARPA or requested by OIG, as well as changes related to program integrity and administrative issues. Due to the large number of comments received, and in order to implement the changes mandated by ARPA for the 2004 crop year, RMA chose to implement the proposed changes in two separate regulations.

The first final rule was published in the Federal Register on June 25, 2003. It contained all of the proposed changes mandated by ARPA and a change requested by OIG for an earlier notice of loss for prevented planting.

RMA is finalizing the second final rule that addresses all of the proposed changes that were not contained in the first final rule. RMA expects publication of this final rule in time to implement for the 2005 crop year, provided all departmental and other necessary concurrences can be obtained.

American Growers Insurance Corporation

In addition to accomplishing APRA mandated compliance regulations, RMA has maintained program integrity despite the fallout of the largest policy issuing company in the federal crop insurance program. On November 22, 2002, L. Tim Wagner, Director of the Nebraska Department of Insurance, placed American Growers Insurance Company under supervision by issuing an Order of Supervision and List of Requirements to Abate Supervision and Notice of Hearing. RMA immediately, thereafter, entered into a memorandum of understanding with the State of Nebraska to insure that the interests of the government and the policyholders were protected.

Senior RMA officials were placed on site with the State appointed rehabilitator to keep focus on the priorities. Despite an enormous claims caseload caused by the drought of 2002, the policyholders were paid in a timely manner. Only a handful of claims are pending, which is typical at this juncture for any operating company. The policies of American Growers (Am Ag) were also successfully transferred to other reinsured companies ensuring that coverage remained in force for the 2003 crop year. This seamless transfer has provided confidence to all our customers, within the federal crop insurance program, that their interest will be protected.

And, I am happy to say, the interests of the taxpayers also have been protected. RMA's onsite presence and supervision of the claims processing has resulted in cost avoidance of several millions dollars. RMA continues to work with the State of Nebraska to bring finality to our work on Am Ag.

- Provide Excellent Service

RMA continues to pursue initiatives to make higher levels of crop insurance protection more affordable and useful to producers, provide better protection to farmers experiencing multi-year losses, expand risk management education opportunities, fund and oversee development of new risk management products and improve program integrity.

RMA's product portfolio includes coverage for 362 different commodities in over 3,060 counties covering all 50 states, and Puerto Rico. RMA will conduct regular market assessments to establish a baseline for customer satisfaction and to measure progress in achieving key elements of customer service to ensure the needs of our customers are being addressed. Also, we plan to address the needs and changes to products, programs and processes to improve service to customers as identified from our listening sessions and RMA's product portfolio evaluation.

PROGRAM HIGHLIGHTS

Now, I would like to conclude with an update on some of our key products and initiatives:

Livestock Insurance Plans

The FCIC approved two pilot insurance programs for Iowa swine producers to protect them from declines in hog prices. The new programs, which began in 2002, were authorized under the provisions of Section 132 of the Agricultural Risk Protection Act of 2000 (ARPA). Until ARPA, federally backed insurance plans providing livestock protection were prohibited by law. The livestock insurance programs provide livestock producers with risk management tools for reducing their price risks. Livestock revenue represents about one-half of the total farm cash receipts.

The two programs approved are: The Livestock Gross Margin (LGM) pilot, submitted by Iowa Agricultural Insurance Innovations, and the Livestock Risk Protection (LRP) pilot for Swine submitted by the American Agri-Business Insurance Company. The LGM pilot provides coverage to swine producers from price risks for six months and up to 15,000 hogs per period. The product protects the gross margin between the value of the hogs and the cost of corn and soybean meal. Prices are based on hog futures contracts and feed futures contracts. LGM protects producers if feed costs increase and/or hog prices decline, and depends on the coverage level selected by the producer. Coverage levels range from 85-100 percent.

The LRP pilot protects producers against a decline in hog prices. Swine can be insured for 90, 120, 150, or 180 days, and up to a total of 32,000 animals per year. Unlike traditional crop insurance policies, which have a single sales closing date each year, LRP is priced daily and available for sale continuously throughout the year. The LRP policy protects producers against declining hog prices if the price index specified in the policy drops below the producer's selected coverage price. Coverage levels range from approximately 70-95 percent of the daily hog prices. LRP Swine and LGM Swine have been available to producers for over a year and have protected over 60,000 head of swine in Iowa. Both products are available from private insurance agents. The length of the pilot programs will be determined by farmer participation, and the financial performance of the programs.   In crop year 2003, the FCIC Board did not approve any requests for expansion of the LRP Swine. Consideration for expansion is deferred until testing is completed and the program demonstrates that the premium rates are actuarially sufficient, the interests of the producers are protected, and that there are no adverse affects on program integrity.

LRP was expanded to fed and feeder cattle for the 2003 crop year. LRP Fed Cattle protects producers in Illinois, Iowa, and Nebraska. LRP Feeder Cattle protects producers in Colorado, Iowa, Kansas, Nebraska, Nevada, Oklahoma, South Dakota, Texas, Utah and Wyoming. Both products use similar methodology to LRP Swine and protect producers against a decline in cattle prices.

<u>Livestock Risk Program (LRP) and Livestock Gross Margin (LGM) Suspensions</u>

Upon the discovery of Bovine Spongiform Encephalopathy (BSE) in the state of Washington, RMA determined it was prudent to suspend the sales of LRP cattle policies to new policyholders. When originally developed, the LRP premium structure was based on the relatively stable futures market prices, which existed prior to the discovery of BSE in Washington State. However, the discovery of BSE destabilized the futures market resulting in large price swings and increased the probability that a producer would receive an indemnity. The crop insurance program is statutorily required to operate on an actuarially sound basis. The volatility present in the market after the discovery of BSE caused the product to no longer be actuarially sound. Current policyholders are not affected by the suspension of sales. The FCIC Board believes RMA acted quickly and responsibly to protect the integrity of the crop insurance program. At present, RMA is actively evaluating the rating structure and other design components of the program that may be affected by the BSE development. Sales will be restored when it is determined by the FCIC Board that the LRP is operating an actuarially sound manner and will serve the best interests of the producers.

On December 17, 2003, the FCIC Board discontinued new sales of the LGM Swine. The Board determined LGM Swine presented excess risk for the FCIC. Coverage price is determined two weeks prior to sales closing. Because LGM coverage prices are determined using the Chicago Mercantile Exchange and the Chicago Board of Trade, insureds may speculate as price on either exchange drops (hogs) or rises (corn and soybeans meal) and purchase LGM; RMA refers to this phenomena as stale pricing. While this strategy is sound, (buy low, sell high) for speculative purposes, LGM is a risk management tool and reinsured by FCIC; this strategy is not appropriate for insurance purposes. As directed by the Board, RMA will work with the submitter of the LGM to address the concerns regarding the program for subsequent insurance periods. Current policyholders of this plan of insurance are not affected by the discontinuance.

Forage and Rangeland

We recently solicited private sector participation in proposing and developing new products and changes to existing products and programs involving pasture, rangeland, forage and hay that are vital to livestock producers. The agency is providing $3 million in funding for these projects, and may provide more depending on the number and quality of submissions that meet program objectives.

Declining Yield

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 have argued that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee adversely affects the viability of future crop insurance coverage and discourages continued participation in the program. RMA's goal is to contract for: (1) research and development of new and innovative approaches to mitigating declines in yield guarantees following successive years of low yield, or provide improvements to existing procedures; and/or (2) research and development of new and innovative procedures for determination of approved APH yields. Through this approach, RMA will seek proposals for new or modified approaches to establishing approved APH yields that are less subject to decreases during successive years of low yields as compared to current procedures; and that are equitable across insureds with differing average yields; and broadly applicable to all crops and regions; affordable to insureds; feasible and cost-effective for RMA and reinsured companies; and is actuarially sound.

Extend Drought Coverage

RMA is constantly evaluating the impact of consecutive years of drought or other natural disasters on declining yields, which affect available coverage, on producers in those States affected. RMA has held meetings in drought stricken States to explain RMA policy and has published a fact sheet regarding prevented planting provisions in FCIC insurance policies and to assist producers, insurance agents, and reinsured companies in understanding how that coverage addresses some of the challenges of drought. Prevented planting coverage is generally straightforward on its face, but it becomes very complex when applied to specific planting situations. RMA has sought producer and insurer input on this issue in a series of prevented planting forums held in 2003. Recommendations from these sessions are being evaluated for possible inclusion in a proposed rule that will make constructive changes in the program. RMA is also preparing to seek private sector assistance in evaluating possible product modifications or new products to address declining yield experience caused by extended drought.

Adjusted Gross Revenue-Lite

The FCIC approved the Adjusted Gross Revenue-Lite (AGR-Lite) insurance plan in late 2002 and began sales for 2003. This product was also submitted to FCIC through Section 508(h) of the Act and was authorized by ARPA. AGR-Lite is available in most of Pennsylvania and covers whole farm revenue up to $100,000, including revenue from animals and animal products. AGR-Lite covers the adjusted gross revenue from the whole farm based on five years of tax forms and a farm plan. AGR-Lite was expanded for the 2004 crop year to include selected counties of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and West Virginia. Program changes were approved that will increase participation, qualify producers for higher coverage levels, increase insurable adjusted gross revenues, and allow for expansion of farms, beginning with the 2004 crop year.

Pilot Programs

Currently, RMA has 31 pilot programs. The pilot programs are: Adjusted Gross Revenue (AGR/AGR-Lite), Apple Pilot Quality Option, avocado APH, avocado revenue, avocado/mango tree, cabbage, cherry, citrus dollar (navel oranges only), Coverage Enhancement Option, crambe, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market snap beans, Income Protection Plan of Insurance (IP), livestock (swine) gross margin, livestock risk protection (swine/cattle), mint, mustard, Onion Pilot Stage Removal Option, pecans, processing chile peppers, processing cucumbers, rangeland GRP, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins.

The FCIC Board of Directors approved the expansion of the millet pilot program and conversion from a pilot program to permanent status for the 2003 crop year. The Board also approved expansion of the pecan-revenue pilot program to be offered in eighty-two counties for the 2003 crop year and subsequently approved the program to permanent status for the 2004 crop year. Additionally, the Board approved conversion of the blueberry pilot program to permanent status effective beginning the 2004 crop year.

Revenue Insurance

Revenue insurance programs include Group Revenue Insurance Policy (GRIP), Adjusted Gross Revenue (AGR), Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Income Protection (IP). Under CRC, RA, and IP revenue insurance programs, indemnities are triggered by low revenues for an individual producer (caused either by low yields, or low prices, or both). Under AGR, indemnities are triggered by low revenue for an entire farm's operations, based on the producer's Schedule F federal tax forms. Under GRIP contracts, indemnity payments are triggered by low county-wide crop revenues. Two of these alternatives, CRC and RA, allow producers the option of insuring separate areas of land either under separate insurance contracts or under the same insurance contract. Each of these alternate contracts requires that producers establish an approved Actual Production History (APH) yield for the crop to be insured.

Effective for the 2003 crop year, changes to CRC and RA-High Price Option (HPO) rating methodologies were implemented for corn and soybeans to respond to dissimilar rates being charged for similar coverage protection. RMA is currently evaluating the feasibility of merging CRC, RA and IP into a master product with several options. This will reduce market confusion over these separate but similar products and should significantly reduce administrative costs associated with their sales, service and administration.

Research and Development

During FY 2003, over $24 million was obligated and approximately 45 contracts and partnership agreements were awarded to further program goals for expanding and improving risk management opportunities for producers. Examples include a contract to review RMA's product portfolio, fifteen research and development partnership agreements such as Organic Price Index, development of a Forage and Rangeland Decision Support System and a number of other program research, development, and evaluation projects to expand and improve the risk management tools for American producers.

CONCLUSION

RMA provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools. RMA strives to foster, at reasonable cost, an environment of financial stability, safety, and confidence, enabling the American agricultural producer to manage the perils associated with nature and markets. The private sector crop insurance industry markets, delivers, and services many USDA risk management products. RMA also provides the educational opportunities to help producers choose and employ effective risk management tools. RMA works with the Farm Service Agency, Commodity Futures Trading commission, and other private and public organizations to provide producers with an effective safety net.

I ask that you approve this budget to enable RMA to continue providing an actuarially sound crop insurance program to America's agricultural producers. Thank you, Mr. Chairman and members of this committee. This concludes my statement. I will be happy to respond to any questions.