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House Committee on
Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Brandon Willis, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the 2015 budget for the Risk Management Agency (RMA) and the Federal Crop Insurance program. The crop insurance program is vibrant and strong and continues to be a critical part of our nation's farm safety net. As proven by recent events, our program is especially critical during years in which there are natural disasters that cause widespread losses. However, the Administration believes that the program can be modified to reduce the burden on taxpayers while helping to ensure that crop insurance remains a significant part of the safety net for producers.

With that said, I would like to take a moment to praise the work of the RMA staff and crop insurance companies across the United States for their tremendous efforts in responding to our customers by providing over $11 billion in indemnity payments for crop and livestock losses. Through their combined efforts, appraisals and claims adjustments were made in a timely manner, indemnities were promptly paid, and farmers were able to complete the process smoothly despite the large number of claims.

This past year RMA focused primarily upon two areas: program integrity and expanding risk management tools to producers who need them. First, we continue our efforts to improve program integrity. Our data mining program has been credited with preempting millions of dollars in improper payments, and we are looking at new ways to use data mining to protect taxpayer resources. Second, RMA works to expand crop insurance to additional producers, crops, and regions. RMA has made great strides to increase coverage over the last two decades. Through some of the provisions of the recently passed Farm Bill, RMA will close coverage gaps even further. This will help ensure that one unfortunate weather event will not put a family farm that has been producing our food out of business, nor stop the work of new and beginning farmers who are in the critical stages of becoming the next generation to provide an adequate food supply for our nation. We work to administer the Federal crop insurance program in a manner that provides effective risk management opportunities to farmers and ranchers in all geographic areas regardless of the size of their operation.

STATUS OF THE FEDERAL CROP INSURANCE PROGRAM

For 2013, the Federal crop insurance program provided approximately 1.2 million policies on nearly 295 million acres, providing over $124 billion in risk protection. Of about $12 billion in total premiums, USDA provided $7.3 billion to help assist farmers and ranchers who contributed $4.5 billion of their own dollars. To date just under $12 billion has been paid in claims for lost and damaged crops.

Producers generally have a choice of crop policies with coverage they can tailor to best fit their risk management needs. In many cases, producers can buy insurance coverage for a yield loss, or revenue protection to provide coverage for a decline in yield or price. Today, most producers purchase "buy up" higher levels of coverage ranging up to 85 percent, while some participate in the catastrophic level of coverage available for a nominal fee. Indemnity payments are usually made within 30 days after the producer signs the claim form.

The Federal crop insurance program has seen an ever-increasing proportion of acres insured at "buy up" levels over the last decade. In addition, producers continue to move towards purchasing more comprehensive plans of revenue coverage. In 2013, revenue coverage accounted for 65 percent of the insured acres, compared to just 33 percent in 2000. In addition, the average coverage level (percent of the total crop covered) for "buy up" insurance has increased to approximately 74 percent for 2013, compared to 68 percent in 2000. Producers also have their choice of livestock programs, which are designed to insure against declining market prices or declining margins. Coverage in these programs is determined using futures and options prices from the Chicago Mercantile Exchange Group.

In 2013, Federal crop insurance was available for approximately 130 crops and 425 crop types plus livestock, in over 3,141 counties covering all 50 States and Puerto Rico. RMA maintained a participation rate of nearly 85 percent for the ten principal crops in 2013. Many banks now require crop insurance coverage in order to approve operating loans to producers, a critical program feature at a time of high crop input prices. Federal crop insurance has become integral to financial planning for many farmers and is especially important in these times of economic uncertainty coupled with volatile weather conditions.

RMA and private entities under the authority provided in section 508(h) of the Federal Crop Insurance Act, have worked to expand the availability of crop insurance coverage to a more agriculturally diverse population. Over the past two years, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) has approved numerous product submissions including:

- Annual Forage to cover a lack of rainfall during a specific period of time;
- Trend Actual Production History was expanded to more areas and more crops broadening the option for growers to adjust their Actual Production History (APH) to account for long-term yield trends to better reflect their true productive potential;
- Specialty Canola to reflect higher contract pricing for the Spring High Oleic Canola type;
- Specialty Corn to reflect higher contract pricing for the High Amylase Corn types;
- Specialty Trait Soybean coverage, expansion to additional soybean types allowing more producers to insure using their contract price for insurance purposes; and
- APH Machine Harvested Cucumbers, a new plan of insurance for cucumber growers.

In addition to the new products, RMA has contracted to develop new or improved insurance programs for Actual Revenue Tart Cherries. At the request of growers, RMA expanded silage Sorghum insurance, and made changes to the Florida Citrus Fruit and Pecan Revenue to better serve producers. And as part of the Farm Bill, RMA initiated efforts early on to improve whole farm insurance coverage.

RMA is also working to better incorporate precision agriculture into Federal crop insurance procedures by allowing producers to use their acreage, yield and precision agriculture data records to report production history, acreage report information, and assist in loss adjustment determinations.

Also effective for the 2014 crops, RMA worked jointly with the Natural Resources Conservation Service and the Farm Service Agency to standardize USDA policies with regard to the use of cover crops by producers to improve soil health and prevent erosion. This change allows producers who plant cover crops consistent with NRCS guidelines to remain eligible for crop insurance.

I am pleased to report that independent auditors reported a clean audit opinion to the Office of Inspector General for RMA and FCIC for fiscal years 2012 and 2013. This report contains an unqualified opinion on the financial statement as well as an assessment of RMA's internal controls over financial reporting and compliance with laws and regulations.

OVERVIEW OF THE 2015 RMA BUDGET PROPOSAL

The 2015 budget requests $8.7 billion for the Federal Crop Insurance Corporation (FCIC) and $77 million for RMA salaries and expenses. This reflects a decrease of approximately $1.3 billion over 2014 levels which includes: decreases of $1.1 billion in premium subsidy and $281 million in underwriting gains, as well as increases of $19 million in delivery expenses. The funding for RMA salaries and expenses for 2015 reflects an increase of $5 million above the 2014 enacted level.

The funding request has incorporated the most recent changes from the Agricultural Act of 2014 (Farm Bill), including new programs like the Stacked Income Protection Plan (STAX) and the Supplemental Coverage Option (SCO), beginning farmer provisions, and development of a whole farm policy.

The budget proposes legislation for five significant Federal crop insurance policy changes that will result in a savings of $692 million in the FCIC budget in 2015 and about $14 billion over 10 years. Of the 10 year savings, about $9.5 billion would be additional costs to producers for the protection they purchase, and about $4.7 billion would be reduced payments to the insurance companies.

The proposals provide a balanced approach by reducing payments to insurance companies as well as the premium subsidies paid on behalf of producers. The proposals will help to ensure that crop insurance remains a significant part of the safety net for producers while reducing the burden on taxpayers.

The proposed legislation focuses on the following five elements:

First, the budget proposal seeks to establish a reasonable return to participating crop insurance companies. A USDA commissioned study found that when compared to other private companies, crop insurance companies' return on retained premium should be around 12 percent, but that it is currently expected to be 14 percent. Therefore, the Administration is proposing to lower the crop insurance companies' return to meet the 12 percent target. Crop insurance companies have earned over $10 billion in underwriting gains over the past 10 years even after the 2012 drought is considered. This proposal is expected to save about $1.2 billion over 10 years through reduced payments to insurance companies.

Second, the budget proposal seeks to reduce the reimbursable rate of administrative and operating expenses. The current cap on administrative expenses is based on 2010 premiums, which were among the highest ever. An appropriate level for the cap would be based on 2006 premiums, neutralizing the spike in commodity prices over the recent years, but not harming the delivery system. This proposal would reduce the cap on administrative and operating expenses from the current level of approximately $1.3 billion annually to approximately $900 million, adjusting for inflation. This proposal is expected to save about $2.9 billion over 10 years through reduced payments to insurance companies.

Third, this budget proposal seeks to decrease the premium subsidy paid on behalf of producers by 3 percentage points for policies currently subsidized by more than 50 percent. However, catastrophic coverage will remain 100 percent subsidized. This proposal is expected to save about $3.8 billion over 10 years. Of this amount, about $3.6 billion is reduced subsidies to producers and $200 million are reduced payments to the insurance companies.

Fourth, this budget proposal seeks to decrease the premium subsidy paid on behalf of producers by 4 percentage points on policies where the producer elects a policy that provides protection against price increase. This reduction is in addition to the 3 percentage point reduction on policies currently subsidized by more than 50 percent. These policies provide price protection if commodity prices are higher at harvest time than when the policy was purchased, which can result in higher indemnities. The ability to have increased harvest price coverage seamlessly integrated into a crop insurance policy presents a convenience that approximates certain revenue protections available through private sector markets. This proposal asks producers to pay a bit more in exchange for the convenience the policy provides. The proposal is expected to save about $6.3 billion over 10 years. Of this amount, about $5.9 billion is reduced subsidies to producers and $400 million is reduced payments to the insurance companies.

Finally, this budget proposal seeks to rescind the authority for funding of a pilot program for Wild Salmon. This proposal is expected to save about $10 million over 10 years.

CONCLUSION

I am pleased to report that in 2013 the Federal crop insurance program functioned as intended by providing timely assistance to producers following various pockets of anomalous weather events across the country. The indemnity payments did not make them whole, nor did it provide these producers with the income they would have earned had their crops not been destroyed, but it helped producers stay in business another year and continue to provide a reliable and abundant food supply. It also benefited those outside of agriculture by adding stability to lenders, and agri-businesses. It will benefit all consumers in the long run by providing the stability that allows America's producers to continue to invest in their farms and ranches so that they can continue to be the most efficient producers in the world. Again, thank you for inviting us here today and I look forward to working with you.

Mr. Chairman, I would be pleased to answer any questions that you and other Members of the Subcommittee may have. Thank you.