Lawmakers Look For Ways To Improve Crop Insurance

SARA WYANT

WASHINGTON, D.C.

With droughts, floods and other disasters impacting crop production across many parts of the U.S., "this year is an excellent example of how important the farm safety net has become," testified Risk Management Agency Administrator William Murphy during a recent House Agriculture Subcommittee hearing to review the Federal Crop Insurance Program.

"Food security is important to this country. I'd hate to be put in a position where we don't have these (crop insurance) programs and have widespread losses across country."

Murphy provided an update on the current state of crop insurance coverage, which now encompasses over 250 million acres of farm and ranch lands, with program liability that could exceed a whopping $100 billion this year – up from just $14 billion in 1994. He also responded to questions from several lawmakers about how the program can be improved in the next farm bill and assured members that lands flooded as a result of levee breaks would be "insurable events."

The hearing marked the first of several "Agriculture Program Audits" which are intended to examine the importance and ongoing relevance of farm policy in a tough deficit-cutting environment.

"The 'wild' card in this whole thing is probably the premium subsidy going forward," Murphy testified. With crop insurance premiums subsidized between 60-65 percent, some deficit hawks are discussing cuts in the level of federal support, perhaps down to 50 percent.

Holding the line on premium subsidies, which soared this year due to higher commodity prices and increased volatility, won't be easy. Agriculture Secretary Tom Vilsack led efforts to trim $6 billion out of the crop insurance program last year as part of an agreement with crop insurance companies who deliver the products. Those same companies, along with their agents, will tell you that they've already taken their share of the crop insurance cuts. Budget cutters look for additional ways to trim the $14.3 trillion federal debt are expecte to turn to farmer subsidies as their next likely target.

If premium rates go up too high, producers will not participate in the crop insurance program. But if premium rates are too low, actuarial performance will deteriorate, Murphy pointed out in his testimony. The RMA is looking at improving its rating methodology – a change that would be welcomed by many farm groups who say RMA's rates have not kept up with current crop yield trends and put too much weight on the largest crop disasters that occurred in 1988 and 1993.

During the subcommittee hearing, House Agriculture Committee Chairman Frank Lucas spelled out the challenges facing members as they write new crop insurance regulations as part of the 2012 Farm Bill.

"The simple truth is that we must make some difficult decisions. There are no sacred cows; so to speak, and during these tough fiscal times, every program, in every title, will be on the table," Lucas said in his opening remarks. "This farm bill gives the Committee an excellent opportunity to prioritize programs that are working, fix programs that are broken, and eliminate programs that are duplicative. We will make those determinations with the help of these audits, along with input from our constituents."

Murphy said his Risk Management Agency is working on several fronts to improve program efficiency, including development of a Comprehensive Information Management System (CIMS) to be used by both the Farm Service Agency (FSA) and RMA. The agency is also working with the Center for Agribusiness Excellence CAE) at Tarleton State University on data mining to reduce fraud and abuse. CAE produces a spot-check list of producers engaging in questionable behaviors and Murphy said the program has been "highly successful," resulting in cost avoidance of almost $840 million.

Program participation has been steadily increasing, but Murphy said there is room for improvement, especially with rice growers. Participation rates are up to 83 percent for major program crops, and have increased to 75 percent on specialty crops. But only 68 percent of the nation's rice is insured. Murphy says RMA is working with farm organizations in Arkansas, Mississippi and Alabama to craft program improvements.

"Just as the development of revenue coverage brought in more corn growers, program improvements will bring in rice growers. We need to continue working until we get it right," Murphy testified.

Murphy said the new Standard Reinsurance Agreement (SRA), negotiated with insurance companies last year, and the $6 billion in savings created through this action, should "ensure the sustainability of the crop insurance program for America's farmers and ranchers for years to come. Two-thirds of this savings went toward paying down the Federal deficit, and the remaining third was used to support high priority risk management and conservation programs.

But Rep. Leonard Boswell, R-Iowa, complained that the "SRA renegotiations left insurance agents in my state and many others perplexed by a direct cap in the SRA on commissions private companies are allowed to provide.

"To me, this is arbitrary and neglects the principal of a free market and the expertise and hard work of insurance agents our farmers rely on," said Boswell. "We must acknowledge that the crop insurance industry is a business, and both the companies and agents need to make a profit in order to stay in the market." Δ

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