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House
Committee on Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of William J. Murphy, Administrator
before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Madam Chairwoman and members of the Subcommittee, I am pleased to present and discuss the fiscal year (FY) 2011 budget for the Risk Management Agency (RMA). This budget reflects a conservative funding level - - and minor increases - - for both the discretionary Administrative and Operating (A&O) Expense Account and mandatory Federal Crop Insurance Corporation (FCIC) Fund. The mandatory request also reflects estimated savings of $8 billion over 10 years because RMA is actively pursuing changes to the terms in the agreement it has with reinsured companies that sell and service crop insurance, the Standard Reinsurance Agreement (SRA).

The progress of the Federal crop insurance program may be measured in several ways. In crop year 2009, there were more than 1.1 million polices written with over $8.9 billion in premium. Federal crop insurance was available for approximately 350 different commodities in over 3,141 counties covering all 50 States and Puerto Rico. Roughly 265 million acres of land were insured and $83.9 billion in risk protection was provided. A participation rate of nearly 81 percent was maintained for the ten principal crops.

In order for the Federal crop insurance program to support risk protection coverage of $83.9 billion in 2011, the funding level proposed for the FCIC Fund is $7.6 billion, and for the A&O Expense Account, $83.1 million.

ADMINISTRATIVE EXPENSES

RMA's FY 2011 request of $83.1 million for discretionary administrative expenses includes an increase of $2.7 million. Of this increase, $739,000 will cover pay costs for essential staff and allow the Agency to continue successfully operating the Federal crop insurance program. The budget request also includes $2.0 million for information technology (IT) operations and maintenance, which are systems without other mandatory funding sources. Specifically, the additional IT funding will provide resources that are critical for RMA to properly exchange data with private insurance partners, interface with industry representatives and other government entities, confirm and assure optimal program performance, and develop, deliver, or monitor the risk management program. The Agency will also be able to sustain its 24x7 operating environment and continue to support hardware, software, and network upgrades.

FCIC FUND

The FY 2011 budget proposes under current statute that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is sufficiently funded to meet estimated growth based on the latest program indicators. The basis for premium subsidy, delivery expenses, and excess capital stems largely from USDA’s latest projections of participation and expected higher market prices.

We anticipate that $5.5 billion will be needed for premium subsidy in FY 2011. Without subsidized crop insurance premiums, many producers, especially minority and limited-resource farmers and ranchers, likely will opt not to participate in the crop insurance program due to financial hardship, or they will reduce coverage levels; leaving them inadequately protected in the event of a crop loss.

The FCIC Fund budget estimate also includes $1.7 billion to reimburse the reinsured companies for delivery expenses associated with selling and servicing crop insurance products and another $1.2 billion in underwriting gains. However, because this company subsidy is excessive, and the government should be able to offer the same program at less cost, RMA has included anticipated program savings of approximately $782 million in FY 2011 - - and $8 billion over 10 years. As I mentioned earlier in my testimony - - changes to the SRA proposed by the Administration will allow these savings to materialize. Due to the preliminary state of the negotiations, however, we did not attempt to apply the savings to individual budget line items at this time. A second draft of the revised agreement was released February 23 and is available on the RMA website (http://www.rma.usda.gov/news/2010/02/223sra.pdf).

Also included in the budget is $26.2 million for excess capital due to timing of fiscal year premium and loss payments and a total of $59.7 million of expected carryover from FY 2010 will be applied to program costs in FY 2011. Federal Crop Insurance Act (FCIA) initiatives total $74.5 million, from which program outreach and risk management education (RME) activities are funded. In FY 2009 alone, FCIC approved 65 outreach projects - - totaling $7.1 million - -

targeting women and small limited resource farmers and ranchers. An additional $6.4 million was spent on RME related commodity partnership agreements, including small sessions focused on specialty crops.

PROGRAM MANAGEMENT

The following is an update on accomplishments and ongoing operations that reflect major program management activities to support our strategic goal:

IT Modernization Project (ITM)

The RMA ITM project is in its third year, since funding was provided in the 2008 Farm Bill. To date, approximately $35 million of the $54 million 4-year project has been obligated under the two phased project approach.

Phase I includes all processes needed to implement rate and price development and filing of insurance offers, edit and validation of data submitted by approved insurance providers (AIPs), and enhanced reporting capabilities. Phase I development will be completed around June 2010 and will support implementation of the Combination (COMBO) policy for the 2011 crop year.

Phase II will include accounting, exception processes, and the remainder of the corporate reporting system, and is scheduled for production in 2011. RMA has strengthened information security to protect producer and corporate information. Significant security enhancements implemented include data encryption for all RMA laptops, more secure remote access into RMA networks, additional policies and security controls, and working with AIPs to protect critical information throughout the insurance process.

SRA Negotiations

RMA recently met with industry representatives and presented findings on company profitability. The Agency has received, reviewed, and considered recommendations and comments from the insurance industry, analyzed various Office of General Counsel and Office of Inspector General reports, and briefed Congress. RMA finalized and released the first draft of the 2011 SRA on December 4, 2009 - - the second draft was released on February 23, 2010. SRA negotiations are an iterative process of draft documents, explanatory meetings, comment periods and document revisions. The process must be completed by June 30, 2010 to be in effect for the 2011 reinsurance year beginning July 1, 2010.

COMBO Regulations and Provisions

FCIC published a Proposed Rule in the Federal Register to amend the Common Crop Insurance Regulations, Basic Provisions, Small Grains Crop Insurance Provisions, Cotton Crop Insurance Provisions, Coarse Grains Crop Insurance Provisions, Malting Barley Crop Insurance Provisions, Rice Crop Insurance Provisions, and Canola and Rapeseed Crop Insurance Provisions to provide both revenue protection and yield protection. FCIC also proposed to amend the Common Crop Insurance Regulations, Basic Provisions to incorporate changes resulting from input and recommendations by the Prevented Planting Work Group. The final rule is expected to be published early in 2010 for implementation for the 2011 crop year. The amended provisions will replace the Crop Revenue Coverage, Income Protection, Indexed Income Protection, and the Revenue Assurance plans of insurance.

When implemented, producers will have a choice of revenue protection (protection against loss of revenue caused by low prices, low yields, or a combination of both) or yield protection (protection for production losses only) within one Basic Provision and the applicable Crop Provisions. This will reduce the amount of information producers must read to determine the best risk management tool for their operation and to improve the prevented planting and other provisions to better meet the needs of insured producers. This combined policy is expected to cover nearly $76 billion of the nearly $84 billion of FCIC's total liability and 94 percent (approximately one million policies) of all policies earning premium.

Compliance Activities

Through combined efforts between RMA, the Farm Service Agency (FSA), and approved insurance providers, program compliance and integrity activities continued to improve through: 1) data reconciliation and matching for disaster program payments; 2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and 3) creating anti-fraud and loss adjustment training packages as required by FCIA. FCIC continues to improve efforts to integrate other data mining projects; explore avenues to expedite the processing of sanction requests; and implement the new Compliance Activities and Results System for case management, tracking, and reporting compliance findings.

The formalized alliance with FSA, along with data mining and analysis, greatly improved referral activity to and from the Agency. This is attributable to the greater emphasis placed upon deterrence and prevention efforts.

CONCLUSION

This concludes my statement, Madam Chairwoman. I would be pleased to answer any questions that you and other members of the Subcommittee may have. Thank you.