

BIPARTISAN GROUP OF SENATORS URGE A COOPERATIVE PROCESS IN NEGOTIATING CONTRACT GOVERNING DELIVERY OF FEDERAL CROP INSURANCE PROGRAM

Washington, D.C. —Senator Tom Harkin (D-IA), Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, led a bipartisan group of ten Senators in calling upon the United States Department of Agriculture (USDA) Risk Management Agency (RMA) to improve the process to be used in negotiating a new reinsurance contract between the federal government and private crop insurance companies. The letter to Administrator William Murphy looks to upcoming negotiations over the Standard Reinsurance Agreement (SRA), the standing contract which governs the financial relationship between USDA and the companies that deliver the Federal Crop Insurance Program to farmers. In the letter, they remind Mr. Murphy of the provisions of the Food, Conservation and Energy Act of 2008 regarding the SRA, and of the need to conduct a fair and open negotiations process. They also urged the Administrator to seek improvements to the program that will benefit agricultural producers and improve the delivery of insurance.

“The Food, Conservation, and Energy Act of 2008 (FCEA) requires the Corporation to consider, in the renegotiation, alternative methods for determining reimbursement rates for administrative and operating costs, although it does not require a new method to be adopted if no suitable alternative is found,” the Senators wrote. “Any new approach must provide fair and adequate compensation to support program delivery so that farmers and ranchers continue to have access to insurance.”

Many crop insurance company officials asserted that for the 2005 reinsurance year, SRA negotiations were not handled in a fair and open

way, which led to a very contentious and lengthy process. For this reason, Congress worked to make changes to how the negotiations would unfold as provisions of the recent farm bill. This letter is intended to remind RMA as to how the Senate expects those provisions to be carried out.

Full text of the letter follows.

August 17, 2009

Mr. William Murphy, Administrator
Risk Management Agency
U.S. Department of Agriculture
South Agriculture Building, Room 6092-S
1400 Independence Ave, SW
Washington, DC 20250

Dear Mr. Murphy:

The Federal Crop Insurance Program is a key risk management tool for America's farmers and ranchers. Since the private sector delivers this public program, it is essential that the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (the Corporation) work cooperatively with Approved Insurance Providers (AIPs) and their representatives to provide critical insurance coverage to agricultural producers efficiently and effectively. The foundation for such collaboration is a fair and equitable Standard Reinsurance Agreement (SRA) achieved through substantive, mutual negotiations.

Section 12017 of the Food, Conservation, and Energy Act of 2008

(FCEA) modifies Section 508(k) of the Federal Crop Insurance Act to set new rules for renegotiating the SRA, which is expected to begin soon. The FCEA permits the Corporation to negotiate a new SRA that would be effective for the 2011 reinsurance year, and then once in every five years subsequently. Subsequent changes in federal law requiring modifications in the financial terms of the SRA are not considered a renegotiation for purposes of that limitation.

The FCEA requires the Corporation to consider, in the renegotiation, alternative methods for determining reimbursement rates for administrative and operating costs, although it does not require a new method to be adopted if no suitable alternative is found. Any new approach must provide fair and adequate compensation to support program delivery so that farmers and ranchers continue to have access to insurance. Consequently, we would ask that any analyses of the impacts of alternative approaches conducted or commissioned by RMA be shared with the AIPs (with whom you will be negotiating), other interested parties (such as groups representing crop insurance agents), and relevant Congressional committees, in order to allow an opportunity to critique the assumptions and methodologies used.

Congress envisions the renegotiation process as a genuine back-and-forth negotiation rather than one which is in effect a rulemaking by RMA and the Corporation. You are aware of complaints on this point arising from the 2005 SRA renegotiation process. To be sure, though, RMA and the Corporation have an obligation to seek efficiency and cost-effective use of taxpayer dollars within the bounds of maintaining a strong crop insurance program that sufficiently helps America's agricultural producers manage their risks. To address concerns regarding certain aspects of the renegotiation process, the FCEA stipulates that AIPs may confer with each other, and collectively with RMA and the Corporation, during the renegotiation process. The AIPs are thus allowed to confer about the proposed terms of the SRA, but must abide by antitrust laws.

Finally, in your SRA renegotiations, and in carrying out the crop insurance program generally, we urge you to seek improvements that will benefit agricultural producers and improve the delivery of insurance, for example, through reducing the paperwork burden for farmers and agents

to the maximum extent possible without compromising the program's integrity.

We want to thank you and your staff for the work that you do in managing this successful USDA program. In the interest of preserving the strength of federal crop insurance, we appreciate the steps RMA has already taken to conduct these negotiations in a cooperative way, and we hope that approach continues. Please let us know if we or our committee staff members, Stephanie Mercier and Christy Seyfert, can be of any assistance.

Sincerely,

Senator Harkin

Senator Chambliss

Senator Grassley

Senator Conrad

Senator Baucus

Senator Bennet

Senator Ben Nelson

Senator Thune

Senator Roberts

Senator Hutchison