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Fundamental Problems Exist with the USDA's Proposed 2011 Standard Reinsurance Agreement

Private Industry Seeks Solutions

OVERLAND PARK, Kan…The private crop insurance industry today released a proposal for the 2011 Standard Reinsurance Agreement (SRA). The SRA is the contract under which the private insurance companies agree to deliver the federal crop insurance program to the nation's farm producers.

The industry's proposal is in response to a proposed 2011 SRA released by the USDA/Risk Management Agency (RMA) on December 4, 2009. The industry is deeply concerned with RMA's initial draft of the 2011 SRA and is proposing a number of changes to reduce the highly detrimental impacts of the RMA proposal.

The RMA proposal would substantially change the structure of the crop insurance program, resulting in an estimated reduction in funding of approximately $800 million per year over the next five years. This $4 billion cut is *in addition* to the $6.4 billion cut mandated by the 2008 Farm Bill.

"These are pretty dramatic cuts based on little or no supporting research and data," said Bob Parkerson, President of National Crop Insurance Services. "The industry supports thinking about change, but it has to make sense for the Government, industry and producers."

NCIS, which represents the private companies who sell and service crop insurance policies to America's farmers and ranchers, presented their comments to the USDA/RMA today.

There are several areas of concern for the industry:

1) **Overall funding reductions implied by the draft 2011 SRA are excessive and unacceptable to the industry.** Various proposals to reduce Federal spending on crop insurance have been made over the past few years, including the President's 2010 Fiscal Year budget reduction of $5.2 billion, which was rejected by Congress. Now, through discretionary action, RMA proposes to implement the largest funding cuts ever for the industry.

2) **Cuts in payments to deliver the program and in underwriting gains are excessive and will reduce industry returns well below the long-term average, sharply reducing the incentives companies have to maintain investments in the industry in order to adequately service all producers.**

3) **Severe funding reductions will impair many of the 15 private insurance companies, especially the small and medium-sized ones.** This is likely to lead to more consolidation among the already shrinking industry and cause many of the 18,000+ jobs associated with this industry, many in rural America, to be lost.

In addition to the proposed cuts, the private industry has estimated, on a preliminary basis, additional costs of over $100 million to comply with RMA's new program initiatives and information technology requirements.

4) **RMA proposed cuts also apply to the USDA-designated "Underserved States."** The cuts in delivery payments will more than offset the RMA proposed underwriting gain in those 16 states, thus reducing incentives to write and service producers there. Companies already operating in these states have low returns there and would now have a powerful incentive to withdraw. There is no mandate to keep taking losses in these states, thus opening the door to a lack of service in these areas.

"We truly hope that USDA and RMA will be willing to sit down with us soon and go through a true negotiation process for this SRA, "said Parkerson. "The Industry has many good ideas to offer, based on years of analysis, much of it by third party accounting firms. I know we can work this out to the benefit of all interested parties without wreaking havoc with a public/private partnership that has been working the way Congress intended for it to work for the last 30 years."

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