STATEMENT OF THE
AMERICAN ASSOCIATION OF CROP INSURERS
ON RELEASE OF THE FINAL DRAFT OF THE
2011 STANDARD REINSURANCE AGREEMENT (SRA)

Tuesday, June 15, 2010

The draft of the 2011 Standard Reinsurance Agreement (SRA) as released by the Risk Management Agency (RMA) of USDA on Friday, June 10, is said to be the final version and, if implemented as is, it will be a serious blow to the continued effectiveness of the Federal crop insurance program. Despite repeated pleas from across the agriculture sector, this latest proposal from RMA would cut an additional $6 billion from the crop insurance program over the next 10 years. As a result, many farmers who depend on crop insurance to help manage the risks associated with their farming enterprises could suffer a loss of service as companies and agencies contract or consolidate.

Two Cuts of $6 Billion Each in Two Years

These additional $6 billion in cuts are being imposed by the Administration before the full implementation of the more than $6 billion in cuts imposed by the 2008 Farm Bill. Furthermore, this second $6 billion in cuts will be imposed in a period of time when RMA is implementing major administrative changes to the management of the program. The RMA should have completed these administrative changes and fully implemented the cuts mandated by the 2008 Farm Bill before placing additional financial and regulatory pressure on the delivery system. Instead, the Administration is abandoning caution and moving ahead with a second round of huge reductions in financial support and implementation of concepts not provided for review in the months and months of negotiations on the 2011 SRA.

Last Minute Changes with No Industry Input

The companies are alarmed about the number of new changes that were unilaterally inserted into the final draft of the SRA without prior consultation with the industry and no chance to comment. While the RMA has conducted a number of meetings with companies and their trade associations, they appear to have been orchestrated primarily to facilitate the objective of imposing a predetermined level of cuts and policy changes in the program at the industry's expense.

For example, the RMA has repeatedly stated a goal of improving service for producers and the Secretary of Agriculture has focused on programs to help smaller farmers, but the final draft of the SRA goes in a completely opposite direction. When there were complaints about putting undue limitations on agent commissions, the final draft abruptly changed from an individual policy limit to a limit per state. Instead of fixing a flawed policy, they made it more perverse. Now it is possible for some agents to be reimbursed more than others in a state, but with a state-wide cap it becomes a zero-sum game. Companies will be able to pay some agents more than the percentage limit if overall in the state they stay within the limit. Agents will be incentivized to drop their smaller clients and produce a portfolio of larger policies with which they can negotiate a larger commission. This will leave smaller agents to face greatly reduced commissions and smaller producers hoping that someone will be interested in servicing their policies. AACI objects to this perverse method of dealing with agents' commissions that jeopardizes service to small and medium-sized producers.

An Attempt to Strip Companies of Fundamental Legal Rights in Order to Protect the RMA's Own Weak Legal Position

On another front, we object to the last minute insertion of Section III(a)(2)(K) in the final agreement. The provisions of this section would not only hold the companies responsible for damages the FCIC may find that the agency is liable for as a result of litigation brought by any Company, but also for the damages resulting from litigation brought by any party that is not even a party to this agreement. Obviously, this Section is an attempt to protect the FCIC from litigation that they are fearful of because it was earlier brought to FCIC's attention that they did not have the authority to make some of the cuts they were proposing in the SRA. Rather than providing an adequate response to the legal opinion submitted to them, the agency has proposed to strip the companies of their rights, and even make them financially responsible for actions taken by other parties over which they have no control. No company should be forced to agree to this gross overreaching and unprecedented attempt to take away private rights of insurance companies.

We hope the Administration will reconsider the attempt at imposing the liabilities and denial of their legal rights described above, If they will do so, we as the companies who will be responsible for carrying out this jumble of sweeping changes and deep program cuts, the member companies of the American Association of Crop Insurers, pledge to our farmer-customers that we will continue, to the best of our ability, to deliver and service the risk management tools that they have come to rely upon over the years. We are very concerned that these massive cuts will jeopardize the high standard of service to our customers that we and the dedicated crop insurance agents have been able to attain nationwide as the program has reached maturity.

The Current Trend of Huge Cuts Will Destroy Thousands of Rural Enterprises and Jobs and Undermine our Stable and Abundant Food Supply

Furthermore, we insist that the current pattern of using the crop insurance program as a bank to fund other programs, as demonstrated in the 2008 farm bill cuts of $6 billion or cutting an additional $6 billion by the Administration to cut the deficit and meet other USDA priorities cannot continue. If it does, it means the destruction of the primary risk protection program for commercial American farmers. This would be sad in light of the recent hearings for the 2012 farm bill, which have demonstrated nationwide dependence upon the program and the need to make it work well for all crops around the nation. It would be ironic indeed if our government were to destroy a successful crop insurance program at the very moment that other nations all over the world are trying to replicate it.

The continuation of the policies reflected in these massive cuts in the crop insurance program will have the end result of destabilizing the economy of rural America by destroying thousands of farms and jobs in rural America, while undermining the stable supply of low cost food for all of the nation's consumers.