Comments of National Crop Insurance Services (NCIS) on:

"Farm Insurance Fraud is Cheating Taxpayers out of Millions"
Los Angeles Times, February 6, 2011

(These comments are based on letters submitted to the editor of the Los Angeles Times by Dallas Smith, former Deputy Under Secretary of USDA, and Keith Collins, former USDA Chief Economist and a crop insurance industry consultant, as well as other material.)

Beginning with its sensationalist headline, the Los Angeles Times misrepresents the occurrence of fraud in the Federal crop insurance program. The article fails to tell the success story that private insurers and their licensed agents now provide coverage on $80 billion of America's agricultural production.

The industry shares the Times' disdain for fraud, and has implemented effective and unprecedented measures to deter and identify false claims. The program has been a pioneer in the use of data mining, utilizes the large field staff of the Farm Service Agency to spot check questionable operations, employs over 4,700 certified crop loss adjusters and conducts numerous claim reviews. These measures have driven the incidence of program abuse far below other lines of property and casualty insurance.

The Times reports, without evidence, "a wave of scams sprouting across the nation." Six cases are mentioned. One case, in California, was uncovered by USDA in 2001. Another case mentioned, in North Carolina, was uncovered in 2000. Many measures to prevent fraud and abuse have been implemented since these old cases were first discovered. Moreover, the Times fails to note that 13.3 million crop insurance policies have been sold since 2000.

Again without evidence, the Times and Professor Bruce Babcock simply assert that companies have little incentive to fight fraud. To Babcock, it "makes sense." In reality, the companies take on substantial risk and making unwarranted payments reduces industry profitability. The companies, along with their large, professional loss adjuster workforce, have every incentive not to make unmerited payments. The crop insurance industry, in partnership with USDA, has zero tolerance for fraud, and is making every effort to root it out and protect America's farmers and taxpayers.

The Times also erred in stating that companies and agents "reap most of the benefits" of the crop insurance program. The article stated farmers received "$1.7 billion" in premium subsidies, implying insurance companies received more than farmers. In fact, farmers received $5.4 billion in premium subsidies in 2009. They received another $1.6 billion in delivery cost subsidies paid to companies on their behalf. Otherwise, such delivery costs would be built into premium rates, the practice in all other lines of insurance. In addition, farmers received the benefits of risk protection that enables farm survival in the event of catastrophe.

The article quoted Babcock as saying the industry keeps the most profitable customers and shifts the riskiest, least profitable customers to taxpayers. Unfortunately the Times failed to note that the companies retain risk on the vast majority of policies. Nor did the Times explain that while the companies can cede some policies to the government, the government sets premium rates, not companies, and companies must sell to any farmer wanting insurance. These regulatory requirements cause the companies to take risks over which they have no control and that explains why companies are permitted to cede some, and only some, of the risky policies to the government.