



## National Association of FSA County Office Employees

### *Celebrating over 50 Years of Serving American Agriculture*

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#### **COST SAVING OPPORTUNITIES WITHIN THE FEDERAL CROP INSURANCE PROGRAM**

The National Association of FSA County Office Employees believes that the Farm Service Agency should be given additional responsibilities within the crop insurance program to achieve major budgetary savings, improve and streamline customer service, and improve program integrity.

#### **Major Cost Savings Available through Expanding FSA Roles within Crop Insurance**

Currently the Federal Government subsidizes approximately 62% of all crop insurance premiums to make them affordable for farmers. In addition to subsidizing the premiums, USDA-Risk Management Agency provides administrative money to private crop insurance companies for servicing tasks, which includes taking crop reports and collecting production or yield data. It does not make sense nor is it fiscally responsible to pay insurance companies for work that is, at best, redundant, and at worst, incomplete. FSA already takes a comprehensive crop report, based on GIS imagery and accurate farm data, for almost every farmer in America. Crop insurance agents already ask producers to complete their crop report with the FSA office and then provide them with a copy of the FSA crop report. Additionally, there is a software system already in place that allows crop insurance agents to access crop acreage reports taken by FSA, at no cost to the insurance company. FSA also collects crop yield data on a regular basis for such programs as ACRE or NAP. The local FSA offices have the capability to collect and process this data for commercial crop insurance participants more efficiently and accurately.

During 2011, the National Association of FSA County Office Employees commissioned a private study completed by Informa Economics, a reputable and independent economic research group, to quantify the potential cost and efficiency benefits that might be realized if certain insurance administrative activities were shifted to the Farm Service Agency. To summarize, the study found that through only the servicing functions of crop insurance being completed by FSA, which includes the mandate to use the FSA crop report and the collection and processing of annual crop yield data, a government savings of **\$1.9 to \$2.1 billion** could be realized. This scenario assumes that private insurance carriers continue to sell the product and provide loss adjustment services. Underwriting gains provide the bulk of the cost savings. It was noted that the savings through the elimination of administrative costs paid to insurance companies solely for crop reporting would be nearly **\$200 million**.

The Informa Economics study also looked at savings achieved through a combination of both sales and servicing of crop insurance policies by FSA. Based on this assumption, the savings associated with FSA servicing plus sales was calculated at **\$1.9 to \$2.5 billion**. The study noted that the cost savings of FSA performing the sales aspect only, without servicing and underwriting savings would be between **\$323 and \$672 million**.

NASCOE recognizes the Informa report as an accurate portrayal of FSA's capabilities to deliver provisions of the crop insurance program. At a minimum, NASCOE supports consolidating the acreage reporting, production reporting and claims administration functions of Crop Insurance (RMA), under the administration of the Farm Service Agency and necessary funding be appropriated accordingly. Additionally, NASCOE advocates for FSA's increased participation in crop insurance compliance activities to provide increased program integrity. The ability for Congress to be fiscally responsible with taxpayer dollars while providing farmers and ranchers with effective risk management tools is a "win-win" scenario for taxpayers and American agriculture. This report from Informa Economics outlines a clear path for this scenario to become a reality. To read the Executive Summary on the implications of FSA's increased role in crop insurance please visit Informa Economic website at: [www.informaecon.com](http://www.informaecon.com).

### **Crop Insurance Programs and the Integrity of Program Data**

Servicing of Crop Insurance policies by the Farm Service Agency, including exclusive usage of the FSA crop reports, the collection of production data by FSA county offices, the review of this data by the farmer-elected FSA County Committees, and the oversight of loss adjusting activities by FSA, will greatly enhance the integrity of the Crop Insurance program.

Crop Insurance is intended to provide a critical safety net to our farmers and for the citizens of our nation who depend on a stable and affordable food supply. Because of the need to make crop insurance affordable and attainable to farmers, the federal government, through the taxpayer, subsidizes 60% of the cost of crop insurance premiums. Yet, the government and taxpayer have very little control over the data that is used within private, for-profit insurance companies.

The Government Accountability Office (GAO) has done multiple studies of the Crop Insurance program. GAO-07-944T, titled "Continuing Efforts are needed to Improve Program Integrity and Ensure Program Costs are Reasonable" found that RMA was not effectively overseeing insurance companies' efforts to control program abuse, and USDA paid crop insurance companies \$4 billion over five years to cover administrative and operating costs. It noted that many reviews were not triggered or were mere "paper exercises." GAO-09-445, titled "Opportunities Exist to Reduce the Costs of Administering the Program" found that administrative payments to crop insurance companies rose from \$960 million in 2006 to about \$2 billion in 2008, but rather than be used towards increasing program integrity, "companies spent a large share of their administrative and operating allowances on commission payments."

The following facts illustrate how program integrity can be increased through the assignment of crop insurance servicing activities to the USDA Farm Service Agency:

- FSA already takes comprehensive crop acreage reports for almost all farmers in the U.S.
- FSA crop reports are based on updated and accurate GIS maps, imagery and relevant field data
- FSA crop reports are based on accurate entity structures and types
- FSA already gathers yield data for the Non-Insured Assistance Program (NAP) and Average Crop Revenue Program (ACRE)
- FSA Operations are overseen by the County Committee system; County Committees have knowledge of farming operations and practices and can quickly identify discrepancies that industry employees cannot
- FSA is not for profit, but rather is focused on service to producers and protection of taxpayer funds, which would eliminate fraud, waste, and abuse.
- Crop Insurance companies are highly motivated by making a profit, even when the premiums of their policies are subsidized by the Government. Their reports are often certification of acres planted, and production (yield) reports are almost always certifications from the farmer. The industry controls all loss adjusting activities and does not have the benefit of County Committee oversight.

By assigning the servicing of Crop Insurance programs to the Farm Service Agency, the government can protect taxpayer and producer interests through the separation of sales and marketing of the insurance product from the data that is used to process claims and establish yields. This will greatly increase program integrity.

In conclusion, NASCOE believes it is our responsibility to identify savings in the current budget environment that save taxpayer dollars and protect farmers' interest. NASCOE also believes the savings identified in the aforementioned Informa Report can help protect the safety net farms and ranchers so need. It is important to protect taxpayer dollars by providing programs that do not duplicate duties, resulting in major costs; and ensures that program integrity is at the forefront of the program.