

**STATEMENT BY
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ON BEHALF OF THE APPROVED INSURANCE PROVIDERS
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY**

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Madam Chairwoman, Ranking Member Roberts, and Members of the Committee, thank you for inviting crop insurance companies to appear at today's hearing to discuss farm policy and the importance of crop insurance as agriculture's fundamental risk management tool.

My name is Steve Rutledge. I am Chairman of Farmers Mutual Hail Insurance Company of Iowa located in West Des Moines, Iowa. Farmers Mutual Hail has been in the business of offering risk management tools to agricultural producers for more than a century. Today, we write both private hail insurance and federally reinsured multiple peril coverage in 15 states.

I am pleased to have the opportunity today to present this testimony on behalf of the approved insurance providers (AIPs). The statement was developed jointly by National Crop Insurance Services (NCIS), the Crop Insurance and Reinsurance Bureau (CIRB), and the American Association of Crop Insurers (AACI). Therefore, it encapsulates the common views of these organizations.

This morning, I will examine how crop insurance evolved to become the essential policy that it is today; discuss the role crop insurance has played since 2008, a timeframe which contains the two most costly years in the history of crop insurance; outline recent challenges facing AIPs; and provide guidance as this Committee continues into the 2012 Farm Bill process.

The Function of the Private Sector Delivery System

Currently, there are 15 private sector insurance companies that sell and service policies through the federal crop insurance program. In 2011, these AIPs wrote more than \$11.9 billion in federal multiple peril crop insurance premiums covering nearly 265 million acres of farmland, protecting more than 80 percent of eligible crops. The potential liability exceeded \$113 billion.

These private sector companies service policies that encompass all farmers and ranchers participating in the federal and private programs, including those who are limited resource and socially disadvantaged. In partnership with the federal government, our members comprise the delivery system for this critical risk management program.

The Increasing Importance of Crop Insurance in Protecting America's Food, Fiber, Feed, and Fuel Production

Although the crop insurance program was originally launched in 1938, it was not particularly successful because, as late as 1979, it was available in only one-half of the nation's counties, and in those counties, only one or two crops were covered. In 1980, Congress passed legislation designed to increase participation in the crop insurance program and make it more affordable and accessible for farmers. This modern era of crop insurance was marked by the introduction of a public-private partnership between the U.S. government and private insurance companies. Under this partnership, private insurers began administering insurance policies and delivering indemnities quickly to insured farmers.

Congress greatly enhanced the crop insurance program in 1994 to strengthen the public-private partnership and encourage greater farmer participation. This landmark legislation, and a subsequent bill enacted in 2000, put us on the path to success by combining federal dollars with farmer premiums to make otherwise cost-prohibitive, high-coverage crop insurance policies universally affordable to farmers of all sizes. The changes also expanded the role of the private sector in developing new products—such as revenue insurance policies—that would help farmers and ranchers manage their risks and enhance their marketing plans. With these additional changes, participation in the program greatly expanded.

By 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase over 1988. And since 1998, crop insurance has continued to evolve in positive ways. In 2011, nearly 265 million acres were protected by crop insurance. Since 1998, meaningful buy-up coverage has increased by over 125 million acres, while basic catastrophic (CAT) coverage has declined by over 42 million acres, to a low of 19 million acres insured in 2011. Federal support combined with producer premiums in 2011 provided over \$113 billion in liability protection, compared with approximately \$28 billion in 1998.

Today, crop insurance is the cornerstone of most farmers' risk management portfolios and covers all major grain and oilseed crops; cotton; nursery; many fruits, vegetable and tree nut crops; rice; potatoes; forage and livestock. We appreciate that farmers and ranchers have found crop insurance to be a great value and look forward to being involved in discussions regarding proposals intended to enhance crop insurance coverage.

2011: A Year for the Record Books

With claims still being filed, crop insurance companies have already paid out a record \$10.3 billion in indemnity payments to America's farmers and ranchers in 2011. This has already surpassed the former record of \$8.68 billion in indemnities paid in 2008.

The year 2011 was perhaps one of the most destructive weather years in history—featuring severe droughts in the Southern Plains, hard freezes in Florida, flooding along the Mississippi and Missouri Rivers, tropical storms in the South and Northeast, and a broad swath of destruction in the Central Plains. To date, roughly one out of every four dollars of indemnity payments went to farmers and ranchers in Texas, who have received \$2.5 billion in indemnities.

For every dollar of premium in Texas for the 2011 crops, producers have received \$2.32 in indemnities.

Based on crop insurance indemnities paid, the next hardest hit state was North Dakota, with \$1.6 billion in indemnities. The other states to fill out the top five were Kansas, South Dakota and Minnesota. Together, these five states accounted for 60 percent of the 2011 indemnities paid nationally.

Since 2008, private crop insurance company indemnity payments have totaled more than \$28 billion. This figure is significant for a number of reasons. First, the private sector, not taxpayers, is carrying a significant portion of the risk for these policies. Second, the policies are being written and managed by private sector crop insurance agents who meet personally with the farmer and devise a plan that fits the farmer's risk profile. Nearly 5,000 certified loss adjusters determine losses and ensure that the farmer complies with the mandates of the policy to reduce fraud and abuse. Lastly, it is the private sector, not the government, that delivers the indemnity payment. These companies must deliver the crop insurance indemnity payment to the producer within 30 days. Contrast that with government-run disaster programs, which can take months, or years, to get the payments into the hands of farmers and ranchers.

When farmers and ranchers are left picking up the pieces after weather or market disasters, they rely on speedy 30-day delivery, not cumbersome 30-month delivery. The fact that the United States is planting crops just months after such devastation in 2011 should not be taken for granted. Crop insurance is permitting farmers and ranchers to recover from last year's disasters and return to their normal practices in 2012.

Crop insurance is more than just periodic payments. It has become indispensable for producers because it helps them obtain needed operating capital, which would otherwise be highly restricted. Equally important, farmers have also integrated crop insurance and marketing to the point that they are very willing to buy crop insurance at high coverage levels, even if they expect no indemnity, to ensure the adequacy of resources to cover forward marketing commitments in the event disaster strikes.

Doing More With Less

The year 2008 was significant for crop insurance for a number of reasons. First, it is the second costliest year in American history in terms of damage to the agricultural sector. Next, since 2008, crop insurance has taken more than \$12 billion in federal funding cuts, a figure which sets agriculture apart as having been one of the only sectors that has taken repeated budget reductions to help address the deficit and curb government spending.

The first reduction of \$6 billion occurred as part of the 2008 Farm Bill. Another \$6 billion resulted from the 2011 Standard Reinsurance Agreement negotiations between crop insurance providers and the U.S. Department of Agriculture.

The 2008 farm bill cut was more than 10 percent of baseline crop insurance funding, while the SRA cut was an added cut of more than 7 percent of baseline funding—a very large

total reduction in the federal investment in crop insurance infrastructure in just four years. This reduction is astounding when one considers that crop insurance represented only 8 percent of farm bill spending and a meager one-tenth of one percent of overall government outlays.

And while federal financial support for crop insurance has been reduced by recent cuts, insurers' exposure to risk has been increasing. Rising demand for major food, fiber, feed, and fuel crops since 2008—fueled by booming exports and the growing renewable fuel industry—has pushed commodity prices to record highs. While this has been great news for the agricultural sector and has been a factor in pulling the overall U.S. economy out of the prolonged and deep recession, it has greatly expanded the value of the crops and hence the risk exposure of AIPs.

The crop insurance delivery system has responded and is doing more with less resources and doing it well. That is why crop insurance has been widely praised by leading farm groups and farmers as the single most important risk management tool available. In the interest of time, I will not read through the long, positive string of quotes from most major commodity groups, but I am including a sampling of quotes pulled from newspapers across the country in this statement for the record.

- “Crop insurance—which is the most important component of the farm safety net for specialty crop producers and growers of most major crops—was specifically created to ensure that private insurance companies, not taxpayers, shoulder the burden of funding payouts following crises.” - Roger Johnson, former agriculture commissioner for North Dakota and current president of the National Farmers Union, in an op-ed that appeared in the **Omaha World Herald** on May 31, 2011.
- “Now I understand that when Congress starts trimming the budget, everyone is going to argue that their specific program deserves protection. While I can't speak for other aspects of federal spending, I can attest to the fact that crop insurance and other aspects of farm policy work for me. Without a doubt, they are the policies that keep family farms like mine in business and our nation is food secure.” - Greg Schwarz, president of the Minnesota Corn Growers Association, in an op-ed that appeared in the **Minneapolis Star Tribune**, June 13, 2011.
- “Because of the many challenges, all young farmers depend on components contained in the 2008 Farm Bill—most notably crop insurance—to provide lenders with the confidence and collateral they need to extend loans. Politicians continue to put these components to the test, even though without crop insurance, farmers throughout the South, Midwest, and various other parts of the country, would have been left with no crop—and no starting point on which to rebuild—due to the range of floods, droughts, tornadoes and frosts, this year alone.” - Matt Huie, a 35-year-old farmer who raises cotton, corn, sorghum, and livestock, in an op-ed that appeared in the **Dallas Morning News** on August 17, 2011.
- “Without crop insurance, I'm not sure that my operation would still exist—and the same goes for many of my neighbors—not just in Kansas but in the Texas panhandle where

they haven't seen a drop of rain since October 17, and Missouri, where flooding has left thousands of acres under water and unproductive.” - John C. Thaemert, Vice President & Trust Officer at Citizens State Bank & Trust Co. in Ellsworth, Kansas and past president of the National Association of Wheat Growers, in an op-ed that appeared in **Agri-Pulse** on September 6, 2011.

- “But perhaps most importantly for those of us who farm, the crop insurance program has the efficiency and speed of the private sector when it comes to getting payments into the hands of those who have suffered economic loss. The crop insurance policy recognizes that farmers are often over-extended after planting and will be very short of cash in hand if a crisis hits until the harvest season comes.” - Dee Vaughan, the current president of the Southwest Council of Agribusiness and the former president of the National Corn Growers Association, in an op-ed that appeared in the Lubbock **Avalanche-Journal** on September 11, 2011.
- “The speed of delivery of crop insurance — because it's administered by private-sector companies — makes it a different kind of animal. In fact, if a natural disaster strikes and I'm covered by a crop insurance policy, typically the payment comes to me in one or two weeks, not in one or two years. Because of that speed of delivery, I can quickly recover from the loss and replant the field, garnering myself some needed income for the year and putting some food on the tables for consumers.” - Quentin Bowen, who raises corn and soybeans, in an op-ed that appeared in the **Lincoln Star-Journal** on October 31, 2011.
- “Now is not the time to weaken crop insurance and put taxpayers—instead of private insurance companies—on the hook for picking up the pieces. If anything, discussions should be centered on ways to strengthen crop insurance and the rest of the safety net. After all, there's far more at stake than farmers in the next farm bill.” - Neil Widner, chairman of the American Crystal Sugar Co. and a sugarbeet, wheat and soybean farmer, in an op-ed that appeared in the **Fargo Forum** on November 30, 2011.
- “Crop insurance is the quintessential tool for managing farm risks because it allows each farmer to pay for the plan that makes the most sense for him or her. Just like car insurance, health insurance or homeowner's insurance, crop insurance allows the individual to assess his tolerance for risk and loss, and purchase plans to meet those needs.” - Jay Armstrong, who farms corn, soybeans, and wheat, in an op-ed that appeared in the **Garden City Telegram** on December 24, 2011.

The 2012 Farm Bill, and Beyond

How crop insurance emerges from the 2012 Farm Bill process will hold major ramifications for this risk management program and for America's farmers and ranchers who have come to rely on it. The ability of federal crop insurance to shoulder a significant portion of the risk that U.S. producers face lies with the legislators who are writing the 2012 Farm Bill and charting a course for the future of farm policy.

We firmly believe that crop insurance should remain the core risk management tool, and we are committed to the public-private partnership of program delivery, which directly supports more than 20,000 private sector jobs across the country. The private sector should continue to provide and deliver crop insurance options, share in the risk of loss caused by changing markets and natural disasters, and adjust losses for insurable crops. We believe the private sector, not the government, is the best way to provide the individual risk management information and tools that are indispensable for producers today. We understand that is the way farmers and ranchers want the program to operate, and trust in our congressional leaders to stay the course.

As development of the 2012 Farm Bill progresses, the crop insurance delivery system is in a unique situation. Companies are still processing and delivering record payouts to farmers and ranchers for their 2011 losses. At the same time, crop prices remain elevated far above historic levels, and projections show that producers will continue to take advantage of that and push themselves to plant to capacity. This indicates the need for crop insurance is likely to rise, as will insurers' risk exposure. With this growth comes an increasing sensitivity to additional changes to the program and the delivery system - because the industry's administration and organizational infrastructure continues to be pushed to the limit.

For example, reporting and regulatory requirements have increased already through the SRA, and new farm bill provisions could impose additional requirements. The AIPs maintain very serious concerns about the President's recent budget proposal, which would weaken the program and delivery infrastructure by removing an additional \$8 billion in funding over the next 10 years. This program, the primary risk management tool for producers, is now adjusting to the cumulative effects of funding cuts over the past four years, record claims in 2011, and significant program changes in store for 2012 and 2013. Any further changes affecting the program must be considered very carefully as swift changes can have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers. In short, we risk undoing the great progress made in protecting U.S. agriculture from risks that farmers and ranchers cannot manage alone.

In the development of the 2012 Farm Bill, many commodity organizations and lawmakers have stated their support for crop insurance, and in developing Title I proposals, many have expressed an interest in revenue protection. Revenue protection policies, which insure producers against yield losses and revenue losses, made up two-thirds of crop insurance policies nationwide in the 2011 crop year and accounted for 81 percent of premium. Revenue coverage is clearly a vital link in the farm safety net, and we are proud to be – and should remain – providers of the products currently available.

While we believe that Title I programs should not compete with crop insurance at all, we recognize the difficulty in creating revenue programs within Title I that are distinctly different from crop insurance revenue products. In 2011, policies with coverage levels of 80 and 85 percent accounted for about one-fourth of total premium. New supplemental revenue programs potentially compete with and may displace these high levels of crop insurance protection that Congress and AIPs have worked so hard for so long to achieve. We recognize and share the concern about program duplication, and we respectfully request that interaction between Title I

programs and crop insurance – the adverse direct or indirect effects on crop insurance – be minimized.

As providers of this successful risk management tool, our goal is to strengthen our ability to assist producers in managing their risk through a strong, efficient, and effective crop insurance program. It is the key to financial stability for America's farmers and ranchers, enabling them to supply our country with food, fiber, feed, and fuel. Without this support, large numbers of producers would be unable to manage weather and market risks with the success they can today.

Conclusion

What Mother Nature or the wildly fluctuating commodity markets have in store for farmers and ranchers this year is unknown. But 2011 taught all of us to expect the unexpected, and those of us in the crop insurance delivery system will be ready to help farmers pick up the pieces no matter what the future holds.

In summary, crop insurance providers are committed to continued private sector delivery of this successful – and essential – risk management tool. We believe in competition and the provision of services through the market, and we think that is the way producers want the program to operate. As farmers and ranchers increasingly rely upon crop insurance to manage risk and as our risk exposure continues to rise, we respectfully caution against swift changes that could negatively impact the program. Crop insurance continues to adjust to the cumulative effects of funding cuts over the past four years, record claims in 2011, and significant program changes in store for 2012 and 2013. Additional cuts such as those proposed in the President's budget could have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers.

We are hopeful that policymakers will recognize the record of success that crop insurance has demonstrated and will continue with a policy that recognizes the key role crop insurance plays in helping farmers and ranchers manage risk and ensuring an ample and stable U.S. food, fiber, feed, and fuel supply.

Madam Chairwoman, Ranking Member Roberts, and Members of the Committee, thank you for the opportunity to be here today. We look forward to continued dialogue with you and your staffs throughout the farm bill reauthorization.