Testimony of

William Cole, Chairman

Crop Insurance Professionals Association

Before the Committee on Agriculture, Nutrition, and Forestry

United States Senate

Regarding "Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill"

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Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, thank you for the privilege of testifying before this Committee today.

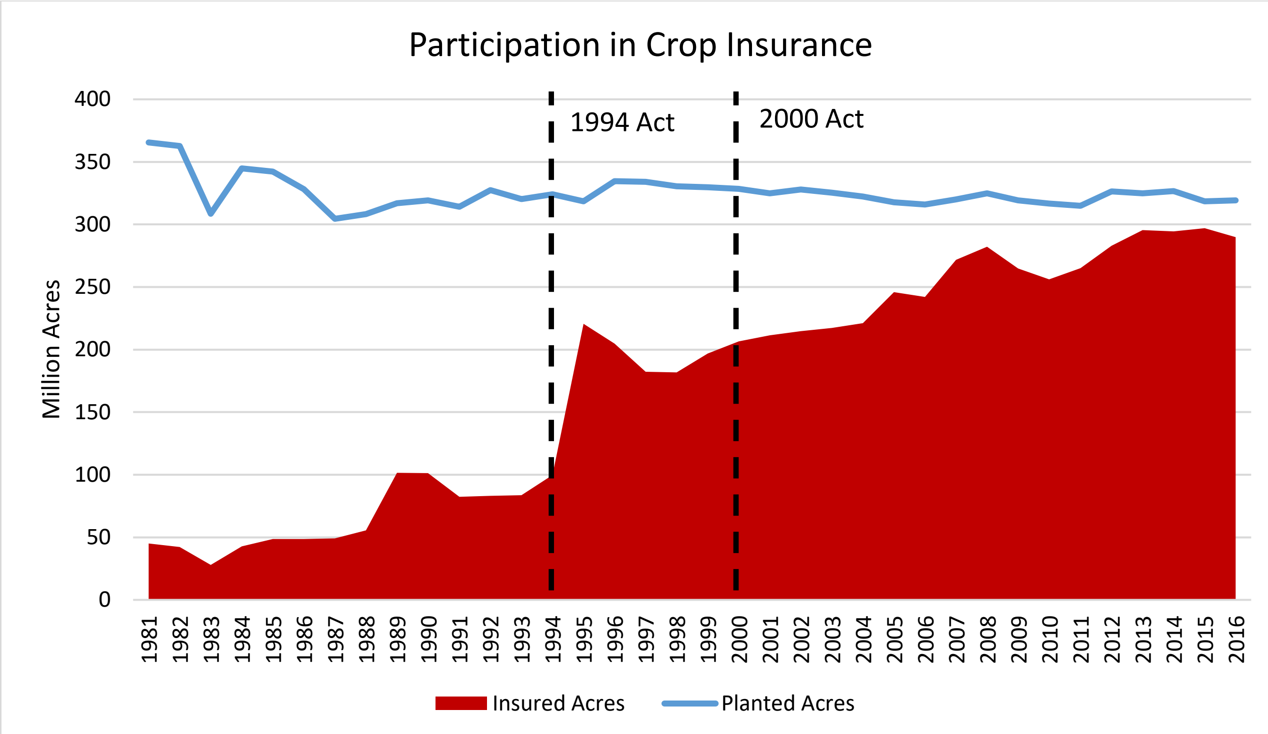
My name is William Cole. I am a crop insurance agent from Batesville, Mississippi and I was born and raised in the small town of Pope just 9 miles down the road. The Mississippi Delta has been my home all of my life, except for my time at Ole Miss where I earned a degree in Business Administration.

I have been in the crop insurance business serving my farmer customers for 22 years, primarily insuring cotton, rice, corn, soybeans, wheat, peanuts, and grain sorghum in Mississippi, Tennessee, Arkansas, Louisiana, and Alabama. We have also written some PRF policies since its expansion into our area.

Karen, my wife of 24 years, our two sons, Harris and Ian, and I live on our farm outside of Batesville where we raise commercial cattle and quarter horses. We also have a rice and soybean farm in the Delta. My family and I are involved in our community as well. I serve as an elder at our Presbyterian Church and I also serve on a local school board.

Speaking about the importance of Federal Crop Insurance before this Committee is a little surreal. After all, the Chairman of this Committee authored the Agricultural Risk Protection Act of 2000 in the Senate that has doubled participation over the past 17 years.

The Chairman's work is largely responsible for the success story of Federal Crop Insurance which today insures 90 percent of all U.S. planted acres, 290 million acres in all, with $100 billion in liability protection in force today. Thank you, Mr. Chairman, for all you have done for America's farmers and ranchers by ensuring that they have access to something as basic as insurance, which most Americans simply take for granted.



The organization I am representing today is the Crop Insurance Professionals Association, or CIPA, which is the only national organization of crop insurance agents that is focused solely on Federal Crop Insurance and led solely by agents. We are very proud of this distinction but we also greatly appreciate and work very closely with other organizations that share our strong commitment to crop insurance, including both company and agent organizations.

As this Committee knows, private sector delivery is one of the four main drivers that has made Federal Crop Insurance what it is today. For this reason, CIPA certainly pays close attention to issues affecting private sector delivery. Overall, however, CIPA probably spends much more time trying to ensure that farmers and ranchers have access to high quality coverage and in working to address any problems with crop insurance that our customers may run into. In short, CIPA and our agent members – who serve farmers and ranchers in at least 35 States – are very focused on the risk management needs of our producer customers. As such, I greatly appreciate that this is also the focus of today's hearing.

Under today's Federal Crop Insurance, producers of some 130 commodities from across the country can more effectively manage their risks. A farmer can know at the beginning of the year what kind of insurance he has in force, and in the event of a loss he knows that relief is on the way, usually within 30 days of a claim being finalized.

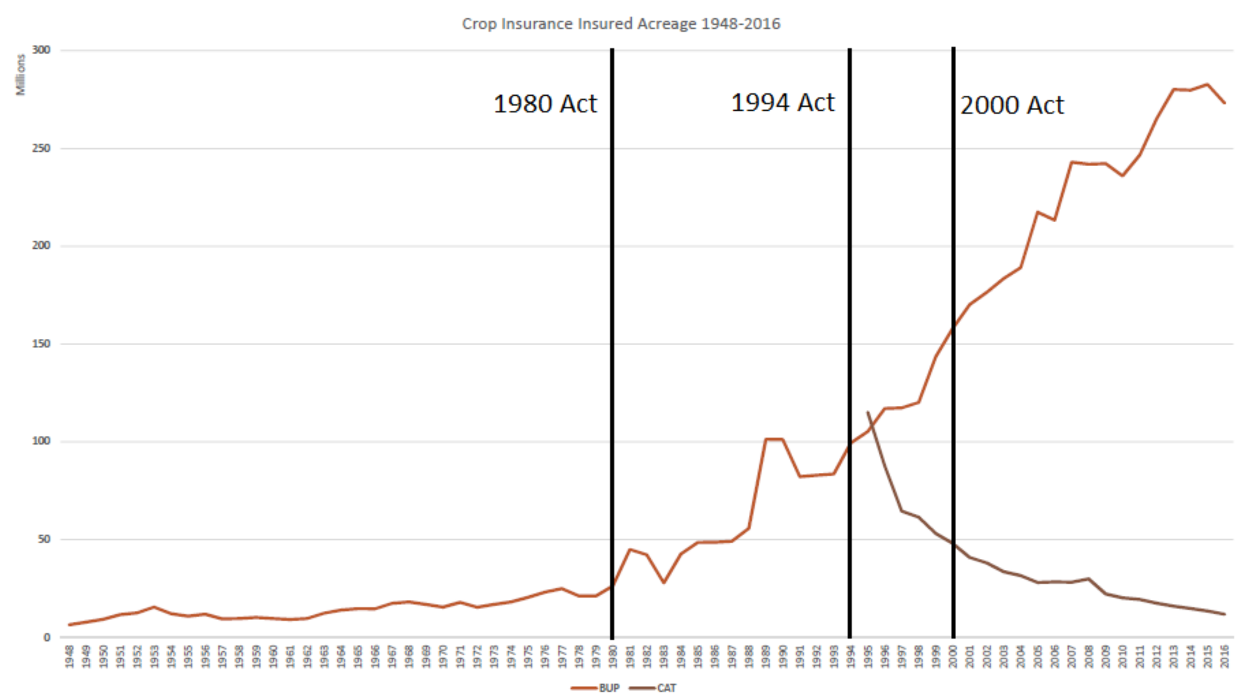
Crop insurance offers peace of mind to farmers, helps them secure credit, invest in their farms, and better market their crops, and it also stabilizes the economies of rural communities, especially in times of natural disasters.

But, it was not always this way. Although lawmakers in 1938 had a grand vision for Federal Crop Insurance much like we see it today, it was only a vision and they had to start out small, beginning with just one crop.

Unfortunately, Federal Crop Insurance did not grow much beyond that fairly inauspicious start until 1980 when Congress turned the sales and servicing of crop insurance over to the private sector. This decision by Congress to entrust Federal Crop Insurance to companies and thousands of dedicated agents from across the country has paid off and it is one of the four key drivers behind the success in crop insurance that really took root 37 years ago.

Fourteen years later, after the Mississippi River floods of 1993, Congress sought to improve upon the Federal Crop Insurance Act of 1980 with the passage of the Federal Crop Insurance Reform Act of 1994 – authored by a distinguished Member of this Committee and then Chairman, Senator Patrick Leahy – that aimed to increase participation and coverage levels for farmers. That legislation, along with the introduction of revenue insurance developed by Kansas State University Professor Art Barnaby, significantly built on the achievements of the 1980 Act.

And, finally, in 2000, Congress went to the drawing board one last time to make critical adjustments in order to boost participation and access to quality coverage that brought us to where we are today. Under the leadership of Chairman Roberts and others, the Agricultural Risk Protection Act was developed in a way that would give meteoric rise to both participation and coverage levels of farmers and ranchers, doubling in 17 years the participation rate achieved over the previous 56.



It is a remarkable success story. Not only has Federal Crop Insurance provided farmers with the insurance they have sought for nearly 80 years, but it has ended costly, unbudgeted ad hoc crop loss disaster programs that have not been enacted by Congress in 10 years.

Many Members of this Committee undoubtedly recall that ad hoc assistance was far more costly and far less effective than crop insurance. It would patch holes at a 65-60 maximum rate, but it did nothing to help farmers leverage risk and make critical investments to improve their operations. Estimates are that even under this model the 2012 drought could have cost taxpayers more than $17 billion had the program mirrored the 1988 drought package. That is $3 billion more than the total cost of crop insurance in that worst of all years.

But, that is not the end of the story when it comes to taxpayer savings under Federal Crop Insurance. Earlier this year, the Congressional Research Service (CRS) issued a report in which it notes that the Congressional Budget Office (CBO) overstated the five-year costs (FY 2014-2018) of Federal Crop Insurance by $10.887 billion.

In fact, the revised CBO cost estimate of Federal Crop Insurance for this year is $3.471 billion, a level of spending that approximates the costs of crop insurance 13 years ago, despite the doubling of participation that has largely occurred over the same period of time.

While CBO estimates show costs settling into the $7 billion range in future years, the fact that five-year estimates were so significantly overstated, with 2016 and 2017 estimates off by $4.5 billion and $5.3 billion, respectively, future CBO baseline updates may well bring further good news of taxpayer savings.

But, even as things stand, the June 2017 CBO baseline update indicates that Federal Crop Insurance is on target to save taxpayers $6.69 billion over the next 10 years relative to the baseline used to write the 2014 Farm Bill.

These budget savings are in addition to the roughly $17 billion in savings from Federal Crop Insurance achieved through administrative or legislative actions taken since 2008, including the 2008 Farm Bill, the renegotiation of the Standard Reinsurance Agreement in 2010, and the subsequent rerating of crop insurance policies.

That Federal Crop Insurance has saved taxpayers money is incontrovertible.

While we are very proud of crop insurance's fiscal success it is very important to understand that these cuts have also meant great pain for the private sector delivery system, including for the thousands of agents who are the "boots on the ground" for crop insurance.

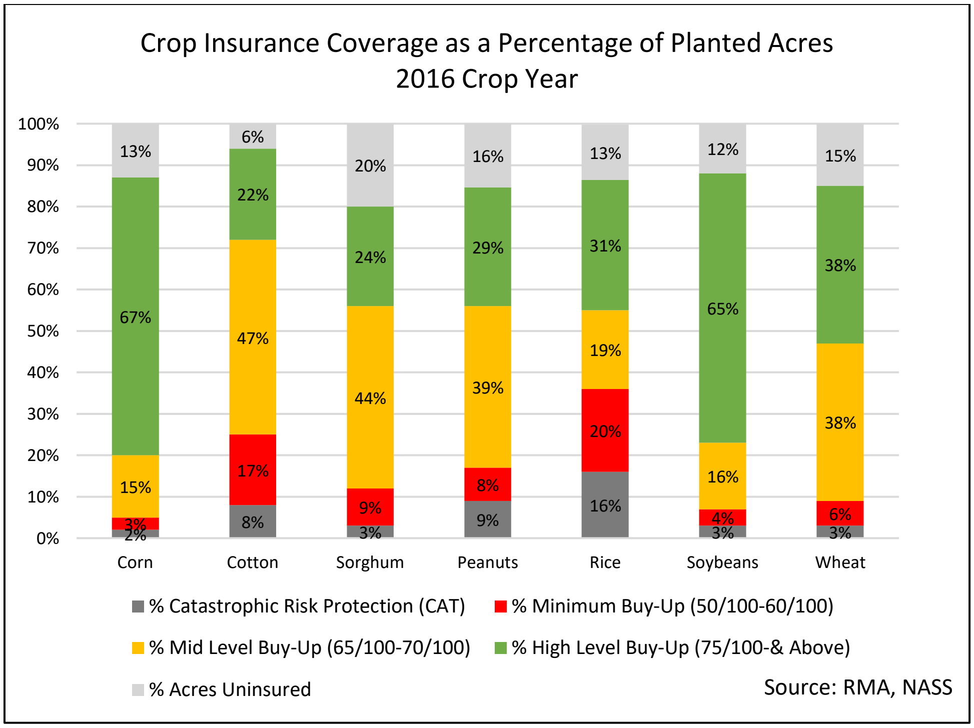
Of course, crop insurance policies do not sell themselves. The impressive record of success of Federal Crop Insurance did not just happen. Rather, Congress provided the private sector the risk management tools that farmers and ranchers need to manage risk and stay afloat and we have gotten those products out there. That is why private sector delivery is so critically important not just to companies, agents, and loss adjustors, but to America's farmers and ranchers who depend upon crop insurance, most especially over the past 24 years.

The timing of crop insurance's emergence as a cornerstone in the farm safety net has been crucial. Ranking Member Stabenow often remarked that the 2014 Farm Bill is "not your father's Farm Bill". Neither are the risks, challenges, and stakes involved in farming and ranching today those of previous generations. As examples, the average size of non-real estate loans to farmers has doubled since 1994 and the average cost of production per farm has more than doubled.

Crop Insurance has been absolutely vital in seeing America's farmers and ranchers through this dramatically changing economic landscape for agriculture.

Yet, despite the great advances that have been made over the past 37 years, some regions and crops have not benefited to the degree others have. This is not so much a criticism of Federal Crop Insurance but a challenge as we all seek to continually improve policies. In CIPA's view, we ought to be every bit as aspirational as the authors of the key crop insurance acts have been in ensuring that all of America's farmers and ranchers have a strong menu of risk management options under crop insurance. After all, if Chairman Roberts and other lawmakers had not had a vision in mind at each of the key periods of time in the history of crop insurance, we would not have reached the place we are at today.

Coverage for corn is a good example that we should strive to emulate for all other crops. 67 percent of corn has 75 percent coverage or higher, meaning most corn farmers have a 25 percent deductible or less. Now, contrast this with cotton, sorghum, peanuts, rice, and wheat where just 22, 24, 29, 31, and 38 percent, respectively, have 75 percent coverage level or higher. The majority of policies for these crops involve deductibles of anywhere from 35 to 50 percent. A similar story can be told with regard to other crops as well. So, there is plenty of work to be done, and this work is certainly ongoing.



On the positive side of the ledger, there have been over 160 new product introductions since 2000, with many of these new risk management tools aimed at addressing the perils unique to underserved commodities or regions of the country. And, this work is paying some dividends. For instance, liability protection in force for specialty crop farmers has nearly tripled since 2000. In fact, 5 of the top 10 insured commodities, as measured by liability protection in force, are specialty crops.

We are certainly hopeful that changes made in the crop insurance title to the 2014 Farm Bill will continue to enhance the quality of risk management tools available to farmers and ranchers.

The Yield Exclusion, for example, has helped many, many farm and ranch families get back on their feet, often times after multiple years of natural disasters that, but for this provision, would have artificially deflated their actual production history and insurable yields resulting in what would amount to a double deductible. During debate over this provision, concern was expressed by some that the Yield Exclusion might adversely impact actuarial soundness requirements. However, the data indicate that Yield Exclusion is actually improving the overall actuarial soundness of crop insurance. In fact, in 2016, the loss ratio was less than half of what the law requires.

Similarly, the changes made to Enterprise Units (EUs), including allowing farmers to elect EU by practice and by differing risk, have also been favorable, allowing farmers to more affordably close deductibles and ensure that coverage is tailored to their risks.

Whole farm insurance is yet another means by which Congress has given us the tools we need to reach out to farmers and ranchers that find more traditional policies less optimal for their operations. Specialty crop farmers, especially out west, but also in Florida and elsewhere around the country, have found the new policy very effective.

Beginning farmer provisions have also been extremely beneficial to thousands of young farm and ranch families just starting out who need crop insurance even more than most because they do not have the reserves and equity built up that those who have farmed or ranched for years may have.

There were also some important equity provisions included in the Farm Bill that took off some of the unnecessarily hard edges of compliance that did not contribute to the integrity of crop insurance but injured innocent farmers. For example, the Administrator was given some discretion to allow for the late payment of premiums in special cases where, before the Farm Bill, a sort of strict liability rule canceled policies on farmers. There were situations where farmers lost insurance coverage just because the post office failed to collect the mail one day at a local mailbox that the farmer put his payment in. We believe that there are more common sense changes like this that should be made under crop insurance in order to avoid these kinds of inequitable, even punitive, results.

As agents, we are on the front lines of protecting the integrity of crop insurance and avoiding improper payments, and we take this job very seriously. In fact, in 2016 alone, the improper payment rate under crop insurance stood at 2.02 percent, which is roughly half of the government-wide average. Agents are very proud of this achievement.

While any form of insurance will always have its share of bad actors, the universe is very small in crop insurance. Farmers do not want to lose a crop any more than someone wants to wreck his car or lose his home or business in a fire. To this point, consider this: since 1988, crop insurance has covered $15 trillion in liability. During this same period, total premiums were $136 billion and total indemnities came to $116 billion. Farmers pay premiums year after year without receiving an indemnity, with only about 19 percent of policies paying an indemnity in 2016. In short, farmers and ranchers view crop insurance as risk management, not a means to receive a payment. And, typically, it is the farmer, not Uncle Sam, who is writing the check.

There are specific ways to build upon the success of these important provisions but, for now, it suffices to say that each has been a success.

But, there are also a few provisions that have not performed quite as well as we might have all hoped.

Linkage of conservation compliance to crop insurance is an example where little has been gained in exchange for a whole lot of effort, and some tragic stories of lost coverage to boot. The provision was adopted under the premise that farmers and ranchers would not lose their coverage on account of red tape, and the goal was always to bring farmers into compliance rather than to punish a farmer for non-compliance. However, in practice, farmers have lost coverage on account of red tape and they can be denied coverage even if they work successfully to come back into compliance. While I appreciate that hard line positions, for and against near any proposal, are becoming more commonplace these days, there is no reason why this issue of equity could not be addressed, particularly where the solutions seek to fulfill the pledges made concerning how conservation compliance is supposed to work on the ground. We believe that dealing with these issues would actually strengthen producer support for conservation compliance.

Area plans of insurance, including the Supplemental Coverage Option and the Stacked Income Protection for Upland Cotton (STAX), have not sold well for a multitude of reasons, including producer wariness about coverage that is not tailored to the risks on their farm, higher than expected premium rates, and, in the case of STAX, the fact that the policy was simply never designed to mitigate the impacts of predatory trade practices by China, India, and other countries. That is the job of the Farm Bill, not Federal Crop Insurance, and CIPA certainly adds it support for our cotton farmer customers who seek inclusion in the Commodity Title to the Farm Bill.

While well intentioned, the Acreage Crop Reporting and Streamlining Initiative, or ACRSI, needs considerably more fleshing out if it is to actually ever work on the ground without adverse consequences for farmers and other parties involved. ACRSI was intended to benefit farmers but the liability involved and the potential for the inadvertent loss of Farm Bill benefits or crop insurance coverage is simply too great under the program as it currently exists.

In regard to dairy eligibility for crop insurance, we agree with dairy farmers who make the case that milk is not included in the definition of “livestock” under the statute and should, therefore, not be subject to the cap on the cost of livestock insurance products. Historically, we have seen the Risk Management Agency forced to shut down the LGM dairy policy offering within minutes due to sales exceeding capacity. As the Whole Farm policy continues to expand, this is going to be an increasingly frustrating problem. Meaningful eligibility for crop insurance coverage could help struggling dairy farmers in the same way Commodity Title eligibility will help struggling cotton farmers.

On a related note, a few studies were initiated by the Farm Bill on the feasibility of different crop insurance policies to benefit livestock producers. However, as long as the cap is in place, there really cannot be the kind of private sector innovation that is necessary to create a successful livestock policy since there is no capacity to offer the policy once it is developed.

In sum, as crop insurance agents, we certainly want to ensure that our farmer and rancher customers have reliable protection under Federal Crop Insurance. But, as the primary trusted advisor of so many producers, we also want make sure that farmers and ranchers have all the tools they need to survive in a very difficult economic climate for U.S. agriculture.

Looking forward to the 2018 Farm Bill, we hold out hope that Congress will carefully consider that the 2014 Farm Bill is on target to save more than $100 billion over 10 years, four times what was pledged; the considerable savings that crop insurance is contributing; the hardship a 50 percent drop in net farm income over the past four years is causing; and agree that a strong new Farm Bill – complete with much-needed and long-overdue regulatory reform – is in order.

In the interest of the farmers and ranchers we serve, CIPA strongly believes that a strong new Farm Bill must be passed on time in order to provide the safety net that struggling producers need right now. Crop insurance is working, but other areas of the farm safety net need shoring up. On this score, I would be remiss if I did not express my personal gratitude to my Senator, the Honorable Thad Cochran, for his work to ensure cotton farmers have an adequate safety net in order to weather these very difficult times.

None of the four Farm Bills that I have experienced in my capacity as a crop insurance agent has come easy. The last process took from late 2011 to early 2014 to complete. The delay was not a function of the Agriculture Committees not able to get their work done because the Agriculture Committees have a long tradition of getting good work done in a bipartisan manner. Instead, extraneous factors slowed Farm Bill efforts down.

We are seeing some of this play out already at the beginning of the current Farm Bill process. Legislation offered by Senator Jeff Flake (R-AZ) and Rep. Ron Kind (D-WI), proposals by the Environmental Working Group and the Heritage Foundation, and even provisions within the Administration's FY 2018 budget are deeply troubling because of the irreparable damage they would do to Federal Crop Insurance.

Among those who are responsible for the success of Federal Crop Insurance today, Dr. Art Barnaby of Kansas State University certainly ranks among them. And, this is what Dr. Barnaby had to say about these proposals that share many common threads between them: "If all of these crop insurance changes were to pass, it will kill crop insurance. One wouldn't expect the critics will get all of the changes they are asking for, but just one of these changes could upset the equilibrium in [crop insurance] and start the death spiral."

These are ominous warnings from a long-time crop insurance expert in academia. And they are the same warnings issued by farmers, ranchers, and lenders from across the country in 2015 when a deal was hatched to cut crop insurance without the consent of the Agriculture Committees. Thankfully, due to the work of the Agriculture Committees, Congress quickly rescinded these ruinous cuts.

If I were to categorize the attacks against Federal Crop Insurance, I would say they largely break into three different groups: (1) kill the insurance risk pool by excluding farmers and acreage that are good risks from crop insurance through arbitrary limits on the levels and kinds of coverage, limitations on premium discounts, and means testing;

(2) kill private sector delivery through unsustainable cuts to A&O and company rate of return; and (3) demand Congress breach long-time privacy protections under crop insurance so the information can be publicized and distorted in much the same way Farm Bill information is today.

In evaluating these proposals, Dr. Barnaby asked the question: "Is the debate over budget [savings] or [over the] elimination of crop insurance?... [Making] these changes…will likely make [crop insurance] ineffective, and over time farmers will drop their coverage."

The first category of attacks – including what would be first ever limitations on premium discounts, first ever means testing, the capping of coverage levels, and the elimination of other kinds of coverage – threaten harm not only to farmers directly affected but all farmers because they propose to remove good risk from the crop insurance risk pool, driving up premiums for those remaining in the pool to the point where, in the words of Dr. Barnaby, the "insurance pool kills itself".

Beyond the impact on the risk pool, there are many other serious problems with these proposals as well. There are, in fact, too many to number. For instance, Dr. Barnaby points out that a California farmer with 543 acres would hit the proposed limit on premium discounts. And, I know from conversations with a peach farmer in South Carolina that he would hit the pay limit with just 25 acres. Obviously, at what acreage level a farmer would be hit by the pay limit depends on the crop, production per acre, and crop value but one thing is clear wherever or whatever a farmer produces: if you are a full time farm or ranch family just struggling to make ends meet, the proposal is aimed at you, although the grapeshot would manage to hit all farmers.

The proposed means test also fails to recognize that farmers operate in a perfectly competitive market where average returns over the long-haul are close to zero. In fact, annual returns to many farmers are often in the red. And, this means that farmers must make hay while the sun shines, building up reserves and shoring up equity in the relatively fewer good years in order to survive the multiple bad years. The proposed means test would deny crop insurance to farmers using this common sense risk management strategy because rainy day funds built up in good years can mean ineligibility for crop insurance in years when farmers are under water.

These proposals, along with the Heritage Foundation's proposal to cap crop insurance coverage at 70 percent yield coverage and eliminate revenue and replacement coverage, would drive down participation and coverage levels, unraveling the achievements of Chairman Roberts in the Agricultural Risk Protection Act of 2000 and that of Senator Leahy in the Federal Crop Insurance and Reform Act of 1994 and return us to the days when costly, unbudgeted ad hoc crop loss disaster programs are needed almost annually.

The second category of attacks would cut administrative and operating (A&O) expense reimbursement used to pay a portion of the costs of delivering crop insurance, including agent commissions and loss adjustor wages and salaries, by 30 percent despite the fact that the current Standard Reinsurance Agreement already cuts A&O by 30 percent, and would reinstate the deep cuts to the rate of return to providers that Congress specifically rejected because of the irreparable injury they would have worked upon private sector delivery and, thus, crop insurance. In short, these attacks would undo the achievements of the 1980 Federal Crop Insurance Act that underpins the whole system.

I will not go into the third category having to do with distortions but will instead simply suggest that data and information can be very helpful in Farm Bill deliberations only insofar as they are not misused for the purpose of misleading public and lawmaker opinion concerning U.S. farm policy. Without putting too fine a point on this, the misuse of information for this nefarious purpose is the sole contribution of certain think tanks to every Farm Bill debate I have witnessed.

Working together, I am convinced that we can enact a strong new Farm Bill on time that fully protects Federal Crop Insurance and CIPA stands ready to help however we can.

Thank you once again for the privilege of testifying before you today. I am truly grateful for the Committee's dedication to America's farmers and ranchers and sound U.S. farm policy, including strong Federal Crop Insurance.