USDA proposes new crop insurance agreement to 'reduce risk'

By Agri-Pulse Staff

Washington, Dec. 4 – USDA's Risk Management Agency (RMA) which administers the federal crop insurance program has released the first draft of a proposed new Standard Reinsurance Agreement between the Federal Crop Insurance Corporation and the crop insurance companies which deliver the program nationally. The 2008 Farm Bill authorized RMA to renegotiate the agreement which was last negotiated for 2005.

The release of the first draft follows months of preparatory discussions within RMA and between RMA and the insurance companies to hear their concerns and gather information needed to renegotiate the agreement. RMA expects to notify the companies at the end of 2009 that the current agreement will be canceled as of June 30, 2010, paving the way for this new agreement to be signed by all parties.

"The Federal crop insurance program is an important part of the safety net for producers and the changes we are proposing will help protect farmers from higher costs, rein in costs for taxpayers, improve access to crop insurance and provide greater protection from crop losses," Agriculture Secretary Tom Vilsack said Friday. "When negotiations are complete, we expect to have in place a stronger federal crop insurance program that helps producers better manage their risk and that serves farmers in every region of the country."

The proposed new Standard Reinsurance Agreement includes six primary objectives which RMA hopes to obtain in renegotiation of the agreement:

- "Maintain producer access to critical risk management tools;
- "Align Administrative and Operating (A&O) subsidy to insurance companies closer to actual delivery costs;
- "Provide a reasonable rate of return to insurance companies;
- "Protect producers from higher costs while equalizing reinsurance performance across states to more effectively reach under-served producers, commodities and areas;
- "Simplify provisions to make the SRA more understandable and transparent; and
- "Enhance program integrity."

These objectives align with RMA's primary mission to help producers manage the significant risks associated with agriculture. By achieving these six objectives, the new SRA is designed to ensure financial stability for the program and the producers it serves, while increasing the availability and effectiveness of the program for more producers and making the program more transparent. The new agreement will also provide insurance companies with greater flexibility for their operations and financial incentives to increase service to underserved producers and areas, while ensuring that taxpayers are well-served by the program.

RMA data shows that annual insurance industry payments have doubled from $1.8 billion in 2006 to an estimated $3.8 billion in 2009 based on the terms of the existing SRA. Meanwhile, the number of total policies dropped slightly from 1.3 million in 2000 to 1.1 million in 2008. In preparation for these negotiations, RMA contracted with an internationally known company, Milliman Inc., to review historical rates of return and determine what a reasonable rate of return is for the crop insurance industry. The full report is available at: www.rma.usda.gov/news/2009/09/milliman.html

In crop year 2008, the federal crop insurance program protected $89.9 billion dollars in crop value in the U.S. For additional information about RMA's proposals, go to: www.rma.usda.gov

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