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NCIS 'disappointed' with 2nd draft of crop insurance agreement

Compiled by Staff

Washington, March 3. Officials with the National Crop Insurance Services (NCIS) said this week they were "disappointed" with the USDA's Risk Management Agency's (RMA) second draft of the Standard Reinsurance Agreement (SRA), claiming the agency made no effort to respond to their comments made in response to the first draft. The NCIS also took issue with a "myth-versus-fact" document released by the RMA on the same day the second SRA draft was issued. The NCIS says the RMA draft and document fail "to respond seriously to our concerns and comments," while the "so-called 'myths'" in the RMA's accompanying document "do not capture the substance of our concern, and the facts rebutting them simply reiterate RMA's position."

Subsequently, the NCIS issued its own call and response document, citing an RMA "myth vs. fact" statement and offering its response to that statement. For example, the NCIS quotes the RMA as disputing the "myth" that the agency has proposed a 40-percent cut in underwriting gains in the new SRA, yet claims the RMA has not made clear just what percentage cut the agency is actually proposing. The RMA counters another "myth" – that the SRA will not do enough to protect the estimated 18,000 jobs tied to crop insurance in difficult economic times. – by asserting that the new agreement "seeks to provide more protection to companies in bad years, thus increasing the financial viability of companies for the long haul." But the NCIS responds that jobs will be endangered by cuts proposed in the White House fiscal 2011 budget plan issued last month that "fail to recognize that crop insurance is a dynamic, growing program with costs rising as services to producers are increasing."

The RMA "myth vs. fact" document claims that the second draft will not result in companies going out of business and industry consolidation because "the levels of projected funding are consistent with that of the mid-2000s, which provided many good jobs within rural America supporting the crop insurance program. "But the NCIS disputes that assertion, contending that with the magnitude of the proposed funding reductions, not all companies will be able to stay in business. The terms of the proposed SRA will result in greater industry consolidation and surviving companies will not be able to provide the same level of service that crop insurance policyholders have come to rely upon.

The NCIS said it issued its rejoinder to the RMA "myth vs. fact" document in an "attempt to address the factual issues we are raising, relative to some of RMA's characterizations, in the hope that in our ongoing conversations with RMA we can find a way together to discuss and work on our substantive concerns."

The full NCIS response to the RMA's second draft of the standard reinsurance agreement and the resulting "myth vs. fact" can be found at http://www.ag-risk.org/PressRel/2010/NCISResponse_t_%20RMA_s_Myths_vs_Facts_3-2-10.pdf.

RMA Administrator, William Murphy, recently discussed the changes in the 2nd draft with a group of crop insurance industry professionals at a meeting in San Diego, CA. He pointed out that, due to significant increases in commodity prices in recent years, annual insurance industry payments more than doubled from $1.8 billion in 2006 to an estimated $3.8 billion in 2009.

As with the first draft of the SRA, the second draft provides companies with relatively stable A&O subsidies per policy for seven major commodities and will facilitate insurance company planning. RMA has responded to some of the companies' concerns by adopting several modifications. For example, the second draft includes a transition period for companies to adjust to the new A&O subsidy structure, and an additional 5 percent for A&O for operations in lower served states. Through its risk sharing terms, the second draft continues RMA's efforts to rebalance expected returns across the country and to more effectively reach under-served producers, commodities, and areas. In response to company concerns, RMA has reduced the number of state groups from four to three and has modified the risk sharing terms for all States from the first draft.

This second draft of the SRA is in line with USDA's six primary objectives for this agreement:
1) Maintain producer access to critical risk management tools;
2) Align Administrative and Operating (A&O) subsidy to insurance companies closer to actual delivery costs;
3) Provide a reasonable rate of return to insurance companies;
4) Protect producers from higher costs while equalizing reinsurance performance across States to more effectively reach under-served producers, commodities and areas;
5) Simplify provisions to make the SRA more understandable and transparent; and
6) 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 will 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.

See additional information about RMA's proposals for the new SRA at http://www.rma.usda.gov/news/2009/12/sra.html.

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