

Testimony
Of
Mike Clemens
National Corn Growers Association
Review of the Federal Crop Insurance Program
Before the
U.S. House Agriculture Subcommittee on General Commodities
And Risk Management
Longworth House Office Building
Room 1300
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X Mr. Chairman and members of the subcommittee, thank you for the opportunity to provide you input for your review of the effectiveness of the federal crop insurance program. I am Mike Clemens from Wimbledon, North Dakota where my wife and I operate our family farm and raise spring wheat, corn, soybeans, sunflowers and dry beans. I currently serve as the Vice-Chair of the Public Policy Action Team for the National Corn Growers Association.

The National Corn Growers Association (NCGA) is a national organization founded in 1957 and represents more than 36,000 members in 48 states, 47 affiliated state organizations and more than 300,000 corn farmers who contribute to state check-off programs for the purpose of creating new opportunities and markets for corn growers.

X I come hear today to share with you how critical federal crop insurance is to the long term viability of corn growers' farm operations. As important as the farm bill's safety net programs are to our grower members, federal crop insurance remains their single most important risk management tool. Because of restructuring in premium subsidies and the addition of new products, particularly revenue-based insurance policies, producers have more choices available to them that better match the levels of risk they confront against the effects of sharp declines in yields and falling commodity prices. The sharp increase in market volatility experienced over the past year and the impact of adverse weather conditions underscore the value of crop insurance as a key component of sound risk management.

Substantial improvements to federal crop insurance through the Agriculture Risk Protection Act of 2000 (ARPA), including more affordable premiums and new product approvals would not have been possible without a significant increase in resources. NCGA is therefore very concerned with proposed funding cuts that put at risk the progress made increasing overall producer participation and levels of coverage that have reduced the need for disaster assistance. While recognizing the continuing need to press for more cost efficient administrative practices and program delivery, NCGA believes further budget cuts will adversely impact the Risk Management Agency's (RMA) ability to adequately address the program's deficiencies that have yet to be resolved.

Despite some ongoing concerns our growers may have on certain aspects of the crop insurance program, NCGA appreciates this committee's consideration of our policy recommendations and suggestions for further improving the program. The action taken, for example, to include a pilot program in the new farm bill to eliminate the disparity in premium subsidies between enterprise unit and optional unit based policies has given a real option to purchase higher levels for protection. In exchange for accepting greater production risk of larger areas, producers are now able to access an equivalent amount of subsidized premium of smaller optional units that has not been previously available in larger enterprise unit for whole farm policies. With both the premium discount and subsidies set by RMA more accurately reflecting the reduced risk exposure to the federal government and private insurers, early reports indicate more growers shifting to enterprise unit policies to take advantage of the opportunity for considerable premium ^{pre.m.} ~~\$~~ ^{savings} and better coverage. ^{example} ~~As~~ ^{my Farm} input costs have risen over the last few years, enterprise unit and whole farm policy coverage can be a very effective risk management alternative for protection against the greater market volatility and severe weather that has been experienced throughout the Corn Belt. ^{example my Farm. When prices were Racking up in Spring to record levels achieved in the summer I could feel confident Forward Pricing my Crops knowing crop insurance would cover my loss due to ~~the~~ Reduce Yields and price Fluctuations} In addition to eliminating the economic disincentive to purchase enterprise unit and whole farm coverage, the restructured subsidies are likely to reduce the work load for the crop insurance companies due to a fewer number of claims. The primary reason is that a claim is only paid where there is a whole crop loss and not because one field may have been damaged. Another advantage of more equitable unit subsidies is a reduced potential for fraud and abuse as producers will have little reason to move production from one optional unit to the next because production from all units are averaged together to determine if an indemnity claim is warranted. ^{The written testimony shows from 2001 to 2008 a dramatic increase of acres covered and buy up coverages to cover Risk} As I stated earlier, federal crop insurance is critically important to the financial stability of corn growers' farm operations. For the 2008 crop year, over 69.3 million net acres of corn were enrolled for a total liability of \$37.6 billion. In 2001, the net acres of corn enrolled in the program totaled 55.8 million net acres with a liability of \$10.7 billion. Even with factoring in the increased demand for corn and higher commodity prices, these numbers indicate that the program has made significant progress with producer participation and the levels of coverage being purchased. Further, the percentage of acres covered by Revenue Assurance (RA) and Crop Revenue Coverage (CRC) policies has jumped from approximately 59.6 percent to over 72 percent. Overall, the percentage of acres insured by revenue based policies, CRC and RA, at the 70 to 80 percent buy up coverage levels has risen from an estimated 42 percent to 54 percent over the same period. While a number of factors influence producers' participation and levels of coverage they purchase, NCGA believes enhanced cost share incentives are primarily responsible for the increases. Approvals of the Pilot Biotechnology Endorsement and the new

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508 H-Concept proposal submission procedures for insurance plans are recent actions that should encourage additional innovation and expansion of the program.

Given the millions of acres not enrolled in federal crop insurance, there are several areas in the program's administration that require additional attention to help sustain the program's progress in strengthening producers' risk management planning and the overall farm safety net. For corn growers, there is an increasing concern that the products offered by the federal crop insurance program throughout much of the Corn Belt have experienced target payout rates for several years well below the targeted loss ratio of 1.00. One analysis by economists from the University of Illinois shows that for the period, 1995 to 2007, corn performed at an average loss ratio of .58 compared to the program's total average loss ratio of .83. If indemnity payments for corn are in fact considerably less than the premiums being paid over time, our members are asking the question why premiums are not being reduced to reflect the actual loss experience.

In light of the fact that corn accounted for \$3.1 billion of the premiums paid in 2007, 47 percent of the total, NCGA recognizes that this issue raises questions of equity as well as potential implications for the program's overall administration. Some possible explanations for the current disparity between the loss ratio experience and policy premiums for corn are 1) RMA's loss cost methodology that gives equal weights to each year in its experience, including the 1980s when participation was low and higher quality farmland was not enrolled in the crop insurance program and 2) Yield trends that cause Average Production History (APH) yields to lag. Without some correction or modification in the program's rating methodology, NCGA has reason to expect that the loss ratios for corn will become lower and more widespread because of escalating yield increases and further advances in seed technology such as drought resistant corn. Given the seriousness of this issue, we are pleased that the Federal Crop Insurance Corporation Board (FCIC) has authorized RMA to secure an outside independent review of the agency's product rating methodology. We are hopeful the study will ensure a comprehensive examination of the data and alternative rating methods as appropriate to address these concerns.

Another area of concern for our growers is administration of the loss adjustment process for quality losses, particularly in the more southern regions of the Corn Belt. For an insured unit to be adjusted for quality loss (Aflatoxin), one official test represents the whole insured unit where as the insured is subjected to what can be varying discounts on a load by load basis. Aflatoxin is not equally distributed in any given unit whether it is an entire insured unit or one of multiple truck loads delivered from the insured unit.

Discrepancies that exist between a receiving facilities test and an "official test" are most likely attributed to erratic distribution of Aflatoxin in a given quantity rather than a lack of adherence to accepted sampling and testing protocols.

When a general production area has a large percentage of the crop affected with Aflatoxin contamination, it is important to understand that the commodity has a lower value due to the lack of unaffected commodity to help absorb those affected bushels (blending). I must also emphasize that insurance coverage ceases at harvest. There is no provision to protect an insured for changes in Aflatoxin levels during storage while producers are waiting for a better marketing opportunity that may or may not present itself.

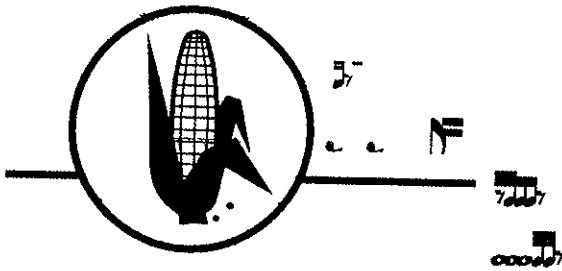
The procedure for appeals by a producer is long, cumbersome and costly. NCGA is ready to work with the Committee and RMA to develop a more simplified procedure so claims can be settled in an efficient and timely manner. The changes by RMA to pay on a flat scale for aflatoxin losses, produces winners and losers. During years of low Aflatoxin, producers may be overpaid, but when aflatoxin levels are high and markets are more adversely affected, producers cannot receive adequate payments. Unfortunately, producers in Texas are still dealing with these very issues from claims in 2005. In fact, some producers just received a notice from a company that did not agree with how the claims were settled.

2, NCGA also wants to bring to your attention a concern raised by growers in Colorado regarding an informational memorandum (PM-09-02) issued by RMA on skip-row planted corn. The purpose of the communication is to convert skip-row corn APH databases to solid plant; combine converted APH data bases with existing solid plant APH data bases, if applicable and determine, report and record the number of skip-row planted acres. Combining the converted databases with existing solid row APH databases has created an unreasonable reduction in coverage for many growers there because most of their solid plant history suffered a significant reduction due to drought in the period from 1997 to 2004. As a result, higher skip-row yields get pulled down by the lower solid row yields.

One solution to address this unwarranted reduction is to allow an insured grower to maintain separate databases for each planting practice (skip-row vs. solid row). A similar approach is now permitted by RMA for summer fallow vs. continuous crop wheat. There is no need to rate the practices differently as is done with wheat. Allowing separate databases using the same rates would be the most equitable way to address this situation.

Finally, I would like to address another problem area that NCGA acknowledges presents a difficult challenge for the RMA and the private companies almost every year, the handling of claims for prevented planting. Even though improvements have been introduced to clarify the options available to growers, there are still situations that arise that call for a more equitable handling of claims. As one example, the program limits prevented planting payments to three years on any one parcel of land even though the same land has been farmed for many years. For a grower who is unable to drain his ground and plant because of "swamp buster" limitations, the denial of a prevented planting claim has a significant impact on the farm operation which must continue to pay the taxes and cash rent on these acres. One answer for some producers is to simply change the listed operator for the affected parcels of land which restarts the crop insurance eligibility window and allows continued payout on the prevented planted acres. The end result is more paperwork, increased administrative expenses for the private insurers and no savings for the program. It is a provision that we request be considered for removal from the regulations that govern the prevented planting claims process.

Once again, Mr. Chairman, I want thank you for this opportunity to share with this committee NCGA's views on the federal crop insurance system and what we consider to be opportunities to build on the progress of the program. We appreciate your leadership and continued support of this very valuable risk management tool.



Mike Clemens

Mike Clemens, along with his wife Pam, work their family farm together in Wimbledon, North Dakota. They have four daughters and one son. Using minimum and no-till practices, they raise spring wheat, corn, soybeans, sunflowers and dry beans.

Mike serves as a director and past president of the North Dakota Corn Growers Association and is Vice Chairman of the Public Policy Action Team with the National Corn Growers Association. He also serves as a director and past chairman of the National Sunflower Association and serves on the North Dakota Oilseed Council. He is also a member of the North Dakota Farmers Union and the Barnes County Crop Improvement Association and has served as Chairman of the North Dakota Renewable Energy Partnership.

Mike attended North Dakota State University and studied Mechanical Agriculture and Agronomy. He is a recipient of the 2008 North Dakota State University Agriculturalist Award for Barnes County and is a member of St. Boniface Catholic Church.