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FEDERAL CROP INSURANCE AND DISASTER ASSISTANCE PROGRAMS

GOVERNMENT

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HEARINGS

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BEFORE THE

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SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING, AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 3029

A BILL TO PROVIDE A VOLUNTARY SELF-HELP PROGRAM
DESIGNED TO ASSIST PRODUCERS OF AGRICULTURAL PRO-
DUCTS TO PROTECT THEMSELVES AGAINST LOSS OF PRO-
DUCTION WHEN NATURAL OR UNCONTROLLABLE CONDITIONS
ADVERSELY AFFECT PRODUCTION AND TO ASSURE CON-
SUMERS THAT PRODUCERS WILL BE ABLE TO CONTINUE
TO PRODUCE FOOD AND FIBER

AUGUST 15 AND 17, 1978

PART III

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



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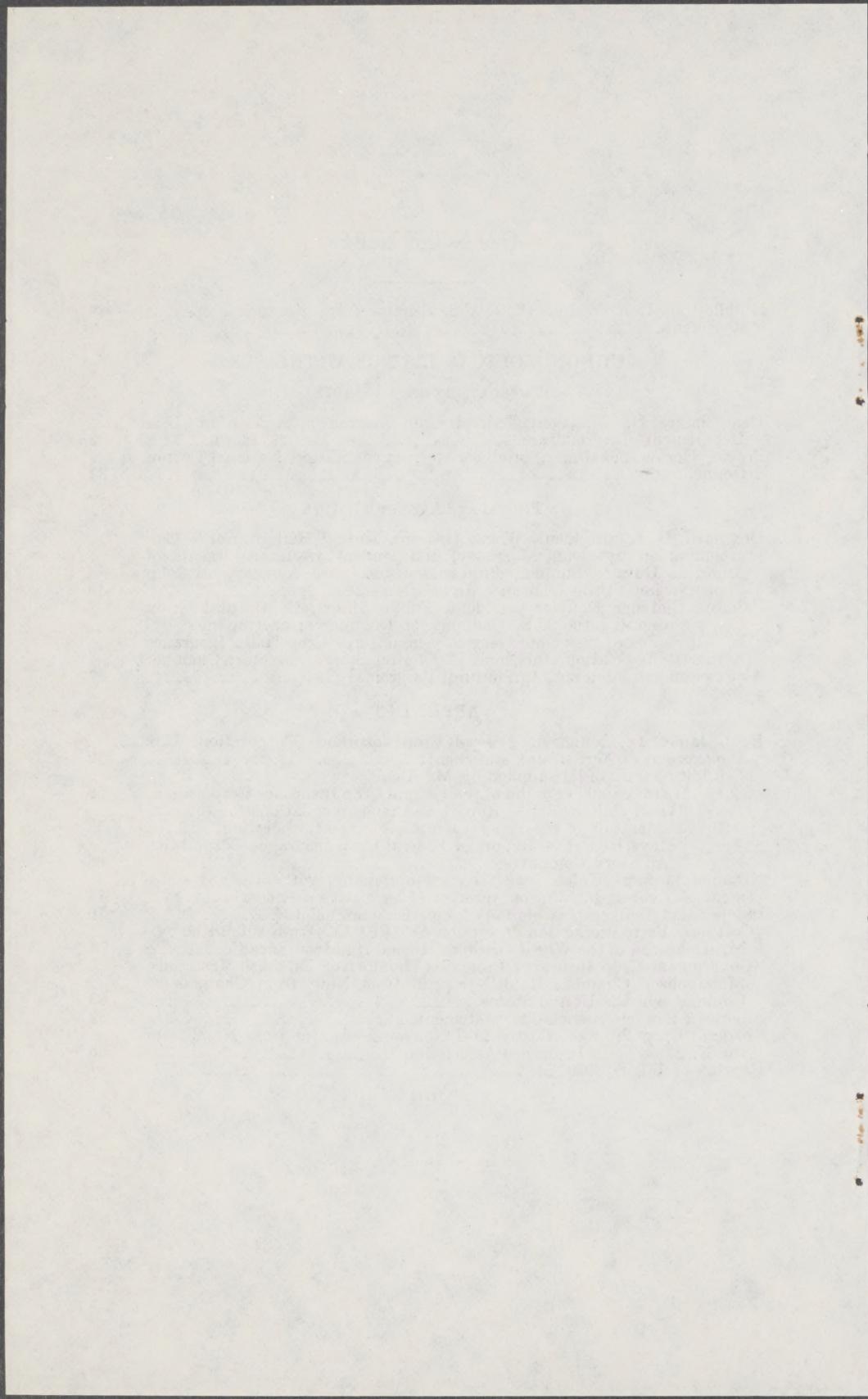
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FEDERAL CROP INSURANCE AND DISASTER ASSISTANCE PROGRAMS

TUESDAY, AUGUST 15, 1978

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met at 10 a.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston (chairman of the subcommittee), presiding.

Present: Senators Huddleston and Young.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

I would like to welcome everyone to the hearing this morning on Federal crop insurance. This is to be the first in a series of hearings that the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices will hold in anticipation of developing a legislative package on disaster relief programs for farmers. It is our aim to hold additional hearings this year, so that we will be able to move swiftly on the legislation when the Senate reconvenes in January.

There is a clear need for new comprehensive legislation to replace current programs which have proven to be both duplicative and inadequate. I know that Chairman Talmadge shares my desire for swift action in reporting out a strong disaster-insurance program for farmers.

I would especially like to welcome our two witnesses this morning, Mr. James Deal, Manager of the Federal Crop Insurance Corporation of the Department of Agriculture, and Mr. Herman Propst, the chairman of the Producers' Steering Committee of the National Cotton Council.

The subcommittee is interested in hearing your suggestions for improving the disaster relief program.

I have introduced two bills, S. 1575 and S. 1746, to reform the Federal Crop Insurance Act, and several of my colleagues have also introduced similar measures, including S. 3029,* the administration bill. So the witnesses should feel free to comment on any of these proposals already introduced or on other programs that you feel would be beneficial toward the development of a comprehensive disaster relief program.

We are ready to proceed with our first witness this morning, Mr. Deal.

*See p. 87 for a reprint of bill S. 3029.

STATEMENT OF JAMES D. DEAL, MANAGER, FEDERAL CROP INSURANCE CORPORATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. DEAL. Thank you, Mr. Chairman.

We thank you for the opportunity for the administration to further explain in detail the proposed program that we feel will replace many of the disjointed disaster programs which the Secretary discussed with you in earlier hearings. It is a program that we feel is very much needed to replace the disaster programs. We feel it is the missing link to the Food and Agriculture Act of 1977, in the particular area of production loss, where the risk variable is six times greater than in nonagriculture areas, where we find a 5-percent fluctuation of production can fluctuate the price of a commodity by 25 percent, and where we know historically for every 12 acres of crop planted, 1 acre will not be harvested.

We put together an insurance program referred to as the Farm Production Protection Act. At the onset of the program, we established some priorities and positions. With your permission, I will submit my full testimony and charts for the record, and then I will just highlight the charts.*

Senator HUDDLESTON. So ordered.

Mr. DEAL. Thank you.

The seven major objectives which we have before you are far reaching in nature, but we believe these are seven objectives that must be met in order to have a program that can truly replace the disaster programs that are presently addressing loss of production.

The first objective is that the program must be all-risk, and it must be available to all producers and in all counties.

The second objective is to provide a good program for our producers, one that would be established from an actuarial base, one that has sense from the standpoint of coverages and premiums, and one that would have what we call neutral impact to all producers alike, whether it be between commodities or geographical areas.

The third objective, which refers to individual producer coverage, is an important ingredient in order to obtain high participation. The program has to address itself to the individual producer needs.

The fourth refers to the USDA county office delivery system. One of the goals of the administration is that we comply with the one-stop service for the producer and get USDA services as close to the producer as possible. For that reason we feel that it is necessary to tie into the county USDA delivery system.

The fifth objective, which refers to county committee assistance in establishing individual producer coverages, ties to the third item. In order to obtain the individual coverage and to apply as much neutral impact as possible because on some commodities, we do not have the historical data by individual producer we will have to solicit the help of the county committee system, which would encompass basically the ASCS committee, but would also draw on the services of Soil Conservation, Extension Service, et cetera.

The sixth objective is to cover the major cost of production. We feel that any program that was designed to replace disaster programs had to address itself to the major cost of production to be a viable program.

*See p. 52 for the prepared statement of Mr. Deal.

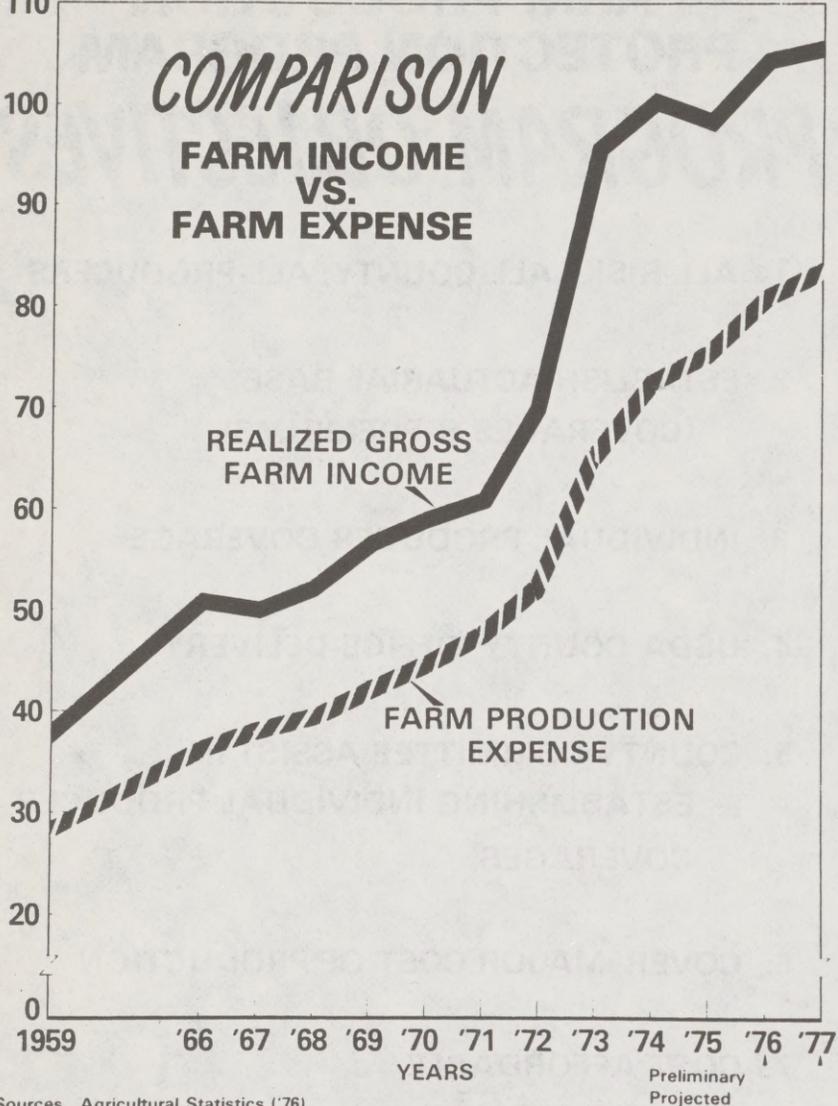
FARM PRODUCTION PROTECTION PROGRAM *PROGRAM OBJECTIVES*

1. ALL-RISK; ALL-COUNTY; ALL-PRODUCERS
2. ESTABLISH ACTUARIAL BASE
(COVERAGES & PREMIUMS)
3. INDIVIDUAL PRODUCER COVERAGE
4. USDA COUNTY OFFICE-DELIVERY
5. COUNTY COMMITTEE ASSIST IN
ESTABLISHING INDIVIDUAL PRODUCER
COVERAGES
6. COVER MAJOR COST OF PRODUCTION
7. COST AFFORDABLE
 - A. TO FARMER
 - B. TO GOVERNMENT
 - C. TO CONSUMER

CHART 1

Objective seven, cost affordable, is probably one of the most difficult of the seven objectives, but the program must be affordable to every producer in the country, whether he is in a high-risk area, average area or low-risk area. It has to be affordable within the limits of the Government budgetary process, and of course, we feel there has to be a benefit for the consumer.

BILLIONS
110



Sources Agricultural Statistics ('76)
ERS Ag. Outlook (July '77)

CHART 2

To give you an idea from where we started to build, we looked at cost of production. This chart shows the spiraling increase of cost of production based on the estimate of 1977. The cost of production climbed to about \$84 to \$85 billion. The program that we are proposing is addressed to the cost of production line. The other line shows the realized gross income. The narrowing spiral is evident.

FARM EXPENSE ANALYSIS

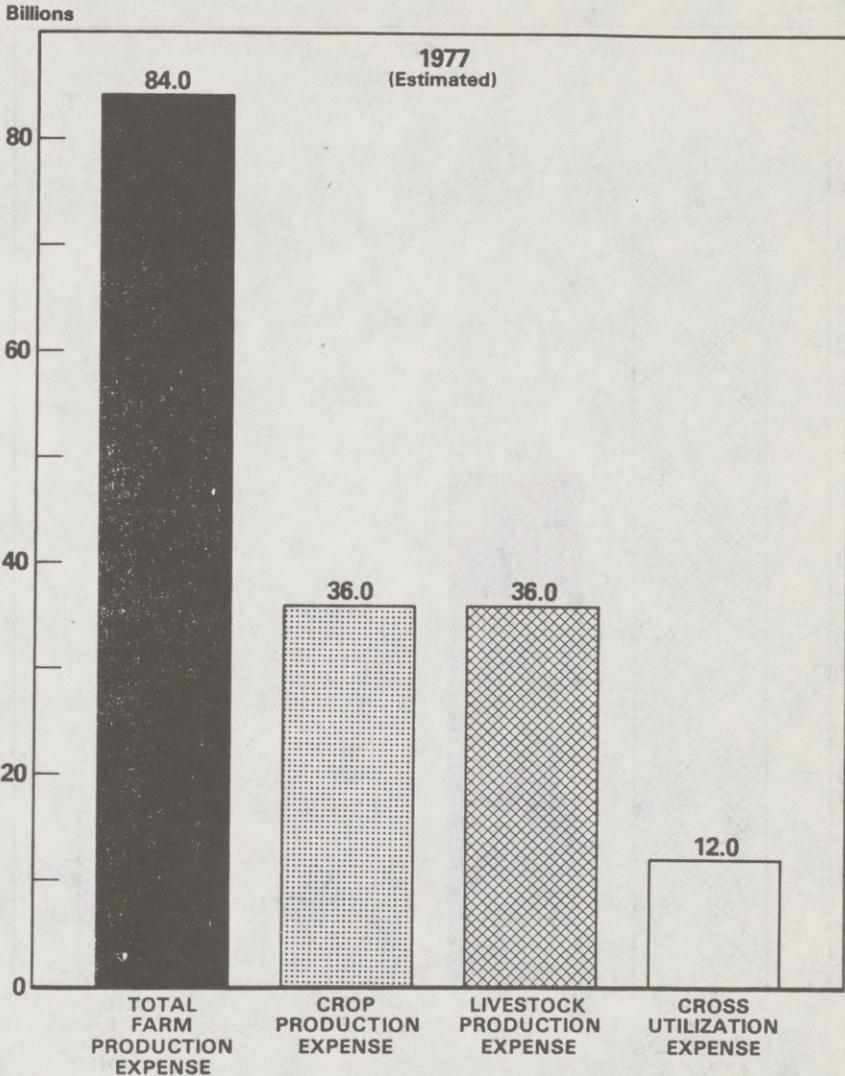


CHART 3

When we took the cost of production figure we had to identify as to where it was. We could clearly identify \$36 billion of the \$84 billion, as crop production cost; livestock costs clearly identified another \$36 billion. There was \$12 billion cross-utilization or unidentified, of which the majority goes into the livestock area.

AVAILABILITY OF PROGRAMS

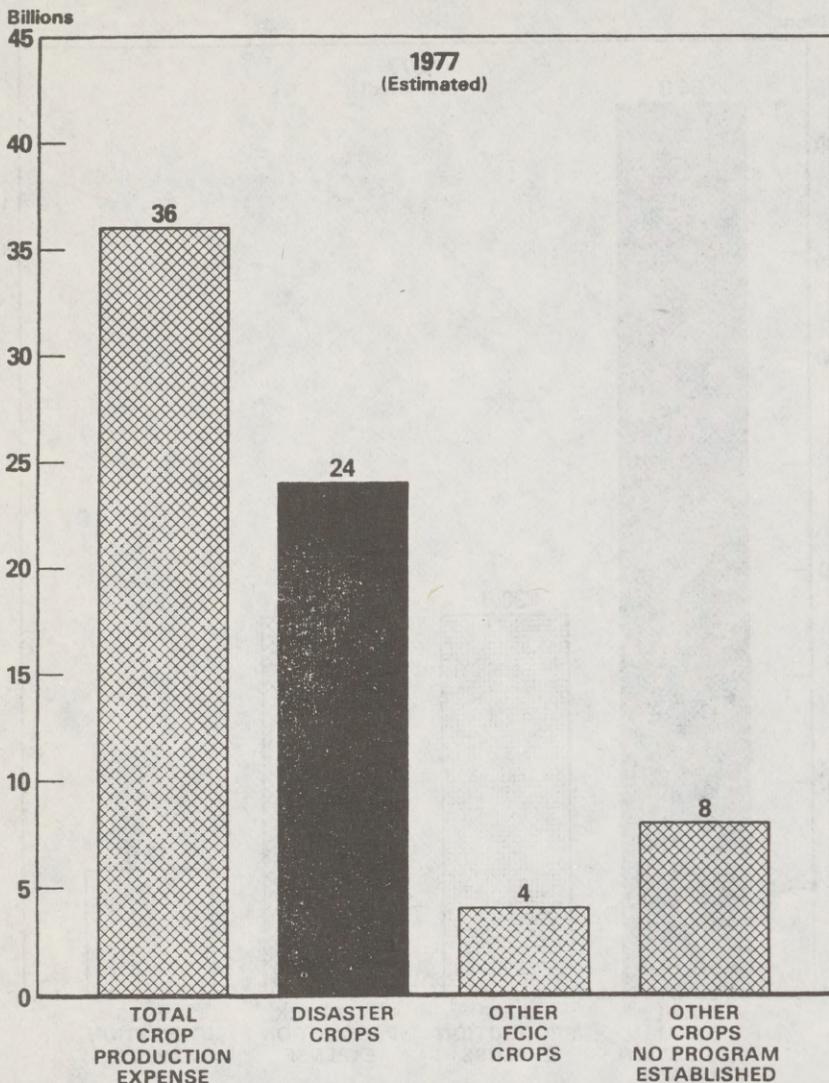


CHART 4

We took the \$36 billion, referred to as cost of production, and broke it into three categories as illustrated in the chart above. The crops presently under the low yield disaster program accounted for \$24 billion of the cost of production. We presently are insuring 26 commodities within the Federal Crop Insurance Corporation, and we do have programs operational on a limited basis on another \$4 billion of the cost of crop production.

Senator YOUNG. May I ask a question?

Senator HUDDLESTON. Yes. Go right ahead.

Senator YOUNG. What were the total amount of disaster payments for last year?

Mr. DEAL. I do not have that exact figure. The average from 1974 through 1976 was \$450 million. I believe it was higher than that last year, but I do not have the exact figure.

Senator YOUNG. Was that for all crops?

Mr. DEAL. For the disaster crops, yes, under the low yield disaster program.

Senator YOUNG. Thank you.

Mr. DEAL. That left \$8 billion where there is no program established.

COST OF PRODUCTION **INDIVIDUAL DISASTER CROPS**

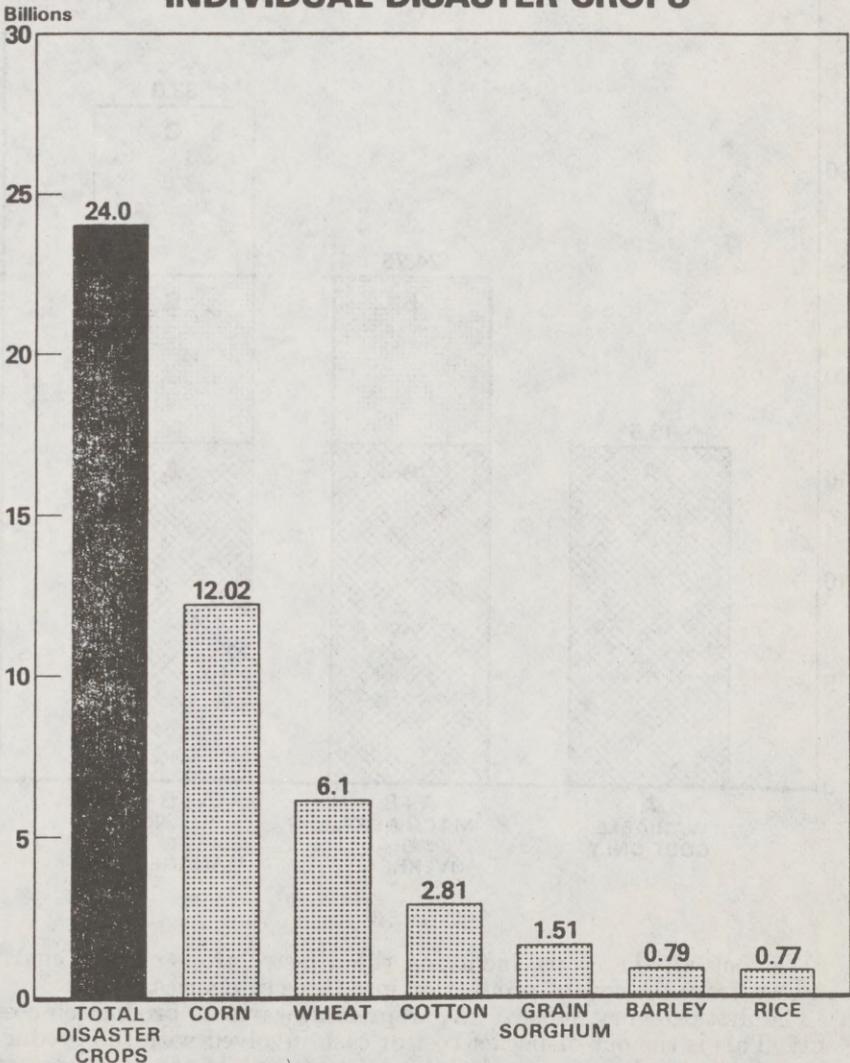


CHART 5

When we look at the disaster crops, I think it is readily apparent that corn contributes to half of the \$24 billion cost of production for the six crops. The other crops are shown on chart 5.

COST OF PRODUCTION **FOR ALL CROPS**

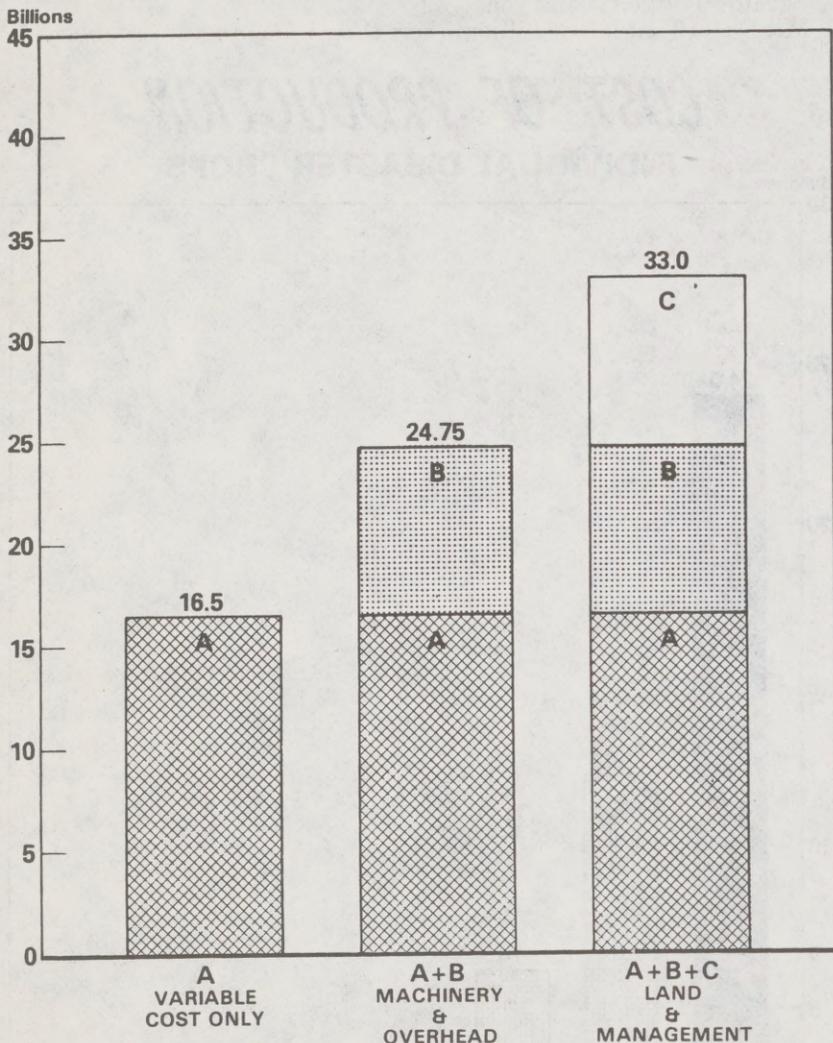


CHART 6

We took all the crops, including the disaster crops on this chart, and we broke the cost of production into three categories.

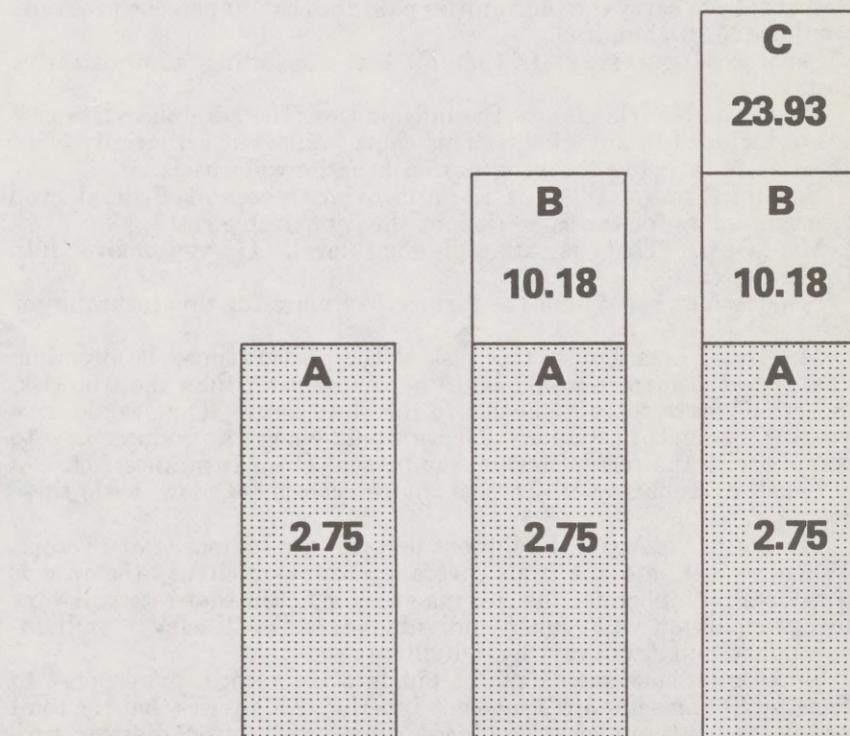
The first category, labeled "A," represents variable production cost only. This is the out-of-pocket cost or cash involved with the production of a crop. It accounts for about 50 percent of the total cost of

production. Then we considered the machinery and fixed overhead costs. This contributed another \$8 billion of the cost of production.

And finally we put the balance of cost of production into land and management. Considering the wide variation in land and management, we added another \$8 billion more onto the cost of production for land and management, realizing that the \$8 billion represents only a portion of it.

COST TO FARMER **PER \$100 OF PROTECTION**

FARM PRODUCTION PROTECTION



AVERAGE RATES

FARMER PAYS	2.75		4.93		9.58
GOVERNMENT PAYS	2.95		2.57		1.82
TRUE RISK	5.70		7.50		11.40

Chart 7 illustrated on page 9 explains what the cost would be to the individual producer. I refer you to the last column, and disregard the figures on the bottom.

When you look at column "A," if I bought \$100 of protection in column "A"—and this chart represents the 18 crops that we are suggesting for the first year, in a composite average nationwide—the protection would cost \$2.75 per \$100 at the 50-percent or the variable cost level of production.

The cost of fixed overhead would be \$10.18 per \$100 of protection.

The last option, which accounts for a portion of land and management costs, would cost approximately \$24 per \$100 of protection.

When you look at the bottom of the chart, we intend to offer options to the producer. The basic policy that we are suggesting would cover variable cost, and that would be at the 50-percent level at a cost of \$2.75.

If you look at the bottom of the chart, the true risk or how much premium, whether contributed by the Government or by the farmer, does it take to carry the indemnities paid for that 50-percent program, would be \$5.70 a hundred.

Senator HUDDLESTON. Is that all cost—including administrative costs?

Mr. DEAL. No; this is just the indemnities. The administrative cost is not included in any of this. This chart points out actuarially what the risk is carrying the program on a nationwide basis.

Senator YOUNG. What is the approximate cost of Federal crop insurance now for the same risk, or the comparable cost?

Mr. DEAL. That is at a higher level. If you move into the 60-percent—

Senator YOUNG. Would the farmer pay more for this insurance or less?

Mr. DEAL. Less. Under true risk at the present time, the premium charge to the farmer would be 10 percent greater than the true risk. We would have to add 57 cents to the \$5.70 figure. That would give you the amount of premium that we would charge a producer now to comply with the regulations of our present Crop Insurance Act.

Senator HUDDLESTON. Is that figure consistent now with these crops?

Mr. DEAL. No. Again, I point out that this is a composite of 18 crops. When we get into the high coverage crops—or citrus—the rate is considerably higher for the coverage they get. But that rate will vary by commodity, it will vary by individual area, it will vary by individual county, and it will vary by individual producer.

Senator HUDDLESTON. I might put into the record, in response to Senator Young's inquiry a moment ago, the staff advises that the total payments made under wheat, feed grain, and cotton disaster programs were, for the 1974 crop year, \$521.8 million; for 1975 crop year, \$262 million; and for the 1976 crop year, \$452.1 million.

Senator YOUNG. We had to appropriate more money, I believe, to keep it going.

Senator HUDDLESTON. I believe we did.

Mr. DEAL. I might address that issue briefly. The need for additional capital was not due to outlay of payments to producers. The problem was due to the limitation within the present act, which says that you

can only appropriate up to \$12 million for administrative costs. The additional money needed for administering the program was taken out of the farmers' premium reserve or the capital stock, with no authority to restore it.

So through this fiscal year, we will have used approximately \$140 million for administrative costs out of the capital fund or premium reserve.

Senator YOUNG. Aren't there some heavy losses, though, under certain crops, and a limited amount of money available to pay these losses? In some crops, there was a profit, but on others there was a sizable loss.

Mr. DEAL. When we look at our capital funds—and we only have one capital fund, even though each crop stands on its own—we rate the amount of premium we charge the producer according to the crop and the risk involved.

The problem we ran into in the disaster years of 1976 and 1977 was that the premium reserve had been used for administrative funds so we did not have the reserves to draw on. It was necessary to come to Congress and ask for additional capital to cover the losses that were in excess of the premiums paid for those years.

Senator YOUNG. You had better put a little more blame on the crop loss payments than on administration. Really, the losses are the biggest part of the program, and not the administrative costs.

Mr. DEAL. Through 1975, the longtime loss ratio which represents the amount of premium paid in and indemnities paid out was 92 cents. The farmers had a sizable reserve in excess of the indemnities paid. Then we ran into the disaster year of 1976. If you look at the amount of premiums paid in versus the amount of indemnities paid out, the farmers still had a reserve of \$21 million.

The problem was that through that same period of time, approximately \$103 million of farmers' premium reserve and capital fund had been used for administrative funds and was not available to pay the indemnity. The present loss ratio through 1977 is \$1.03.

Senator YOUNG. I get the impression now that the administrative costs were more than the farmers got paid. Maybe I do not quite understand your explanation.

Mr. DEAL. In 1977, for example, a disaster year, we paid about 150 percent of the premium income. That payment represents about \$150 million of payments. The total administrative cost for that same period of time was about \$23 million.

Senator YOUNG. OK.

Senator HUDDLESTON. Are those administrative costs separate appropriations directed for administration purposes; they don't come from the premium paid?

Mr. DEAL. Yes; we are not authorized by the act to charge the producer for the administrative costs, consequently they are separated from the indemnity costs.

Senator HUDDLESTON. Go ahead.

Mr. DEAL. Chart 8 illustrates the variable cost, the fixed overhead and machinery, and a portion for land and management, on the initial 18 commodities to be covered in the first year.

The chart points out that the total amount of protection would be approximately \$26 billion.

\$ BILLIONS

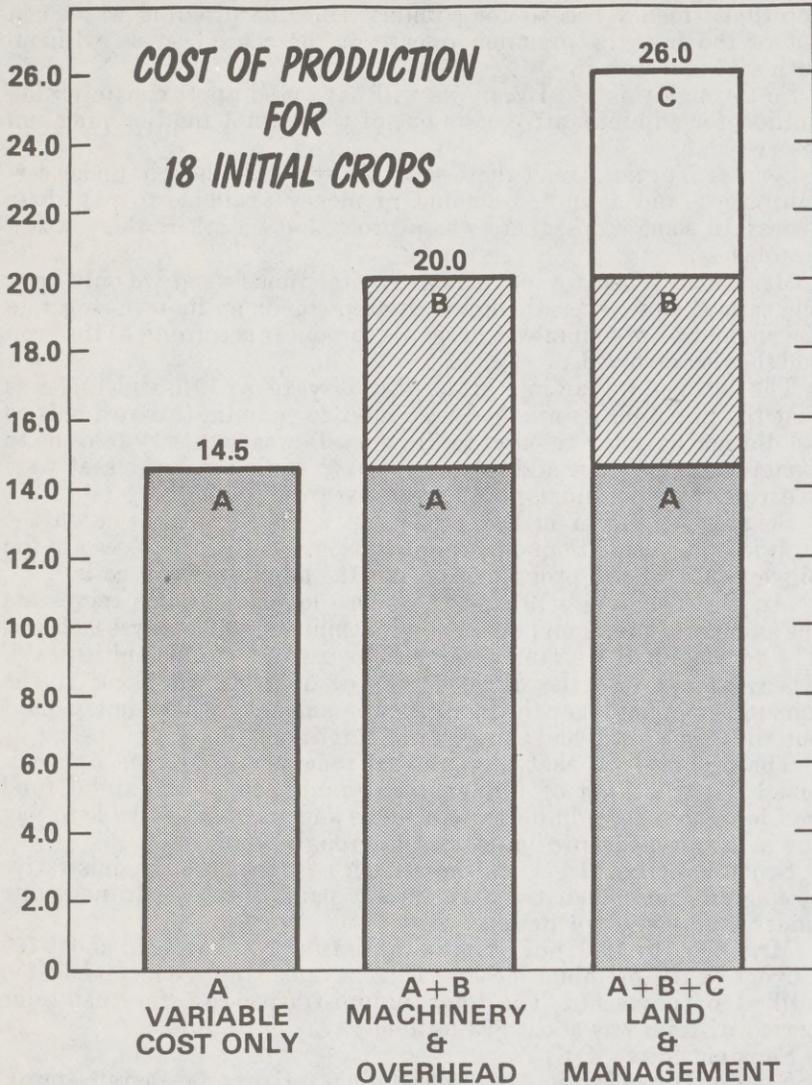


CHART 8

Chart 9 on page 13 depicts the 18 crops that we propose to cover nationally in the first year of enactment of the proposed legislation.

Senator HUDDLESTON. The ones on the left are the ones that are not covered?

Mr. DEAL. The ones on the left are the present low yield disaster programs. The ones on the right are not. All of these coverage programs are presently being offered by Federal crop insurance. They are not in all counties, however. FCIC is presently operating in 1,522 counties of 3,077, and within those 1,522 counties, we have some limited programs. We may insure only corn in one county and we may insure both corn and oats in another one.

18 MAJOR CROPS

INCLUDED IN INITIAL THRUST OF FARM PRODUCTION PROTECTION PROGRAM

DISASTER CROPS

CORN
GRAIN SORGHUM
WHEAT
COTTON
RICE
BARLEY

OTHER CROPS

SUGAR CANE
SUNFLOWERS
CITRUS
DRY BEANS
SOYBEANS
OATS
FLAX
PEANUTS
TOBACCO
RAISINS
SUGAR BEETS
RYE

CHART 9

In addition to these 18 crops, FCIC does offer limited programs on 8 other commodities. These eight commodities are apples, grapes, peaches, peas, tomatoes, potatoes, sweet corn, and forage.

Chart 10 compares the cost of the present programs to what we are proposing. Look at the left-hand column. We took the average cost of the low-yield disaster program for a 3-year period, which is \$450 million a year. For SBA and FmHA programs, the \$75 million figure, represents only that amount of subsidized interest between the 3 percent and whatever the going interest rate for that particular program

is—either the prime rate or fixed rate. The crop insurance figure on the chart represents basically the administrative costs, which annually runs at about \$80 million.

FARM PRODUCTION PROTECTION VS. PRESENT DISASTER PROGRAMS

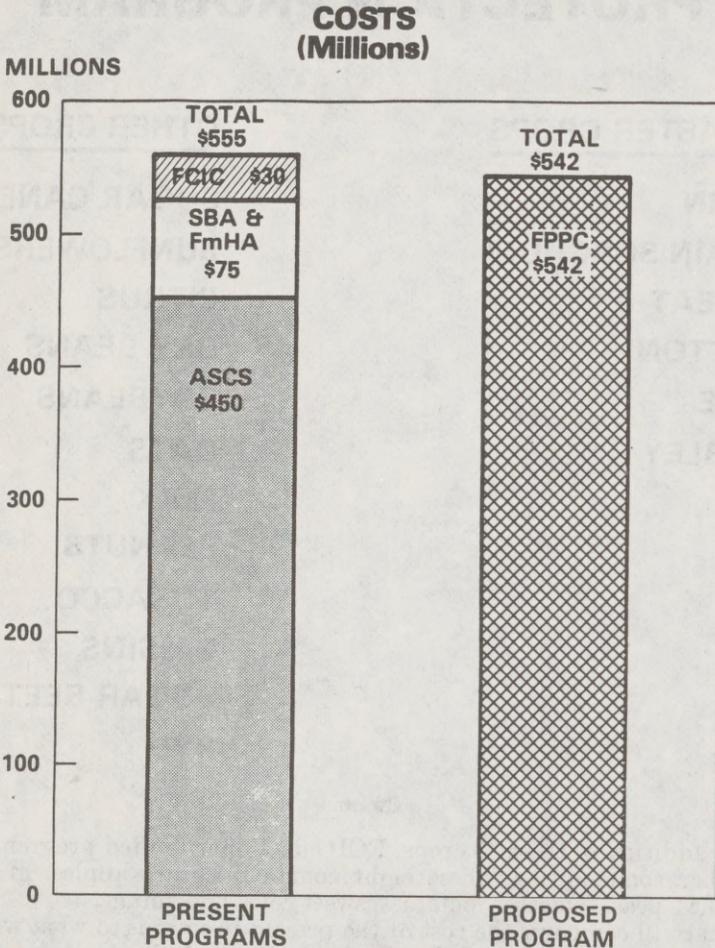


CHART 10

Under the proposed program, the total cost would be a little lower than \$555 million or \$542 million. This is based on a 68-percent participation. If we had more participation, the cost could be a little higher.

Senator YOUNG. Can I ask a question there? On these losses, would the administrative costs be taken out of the Commodity Credit Cor-

poration funds, or would you establish a charter and appropriate a certain amount of money to establish the program and operate it?

Mr. DEAL. The insurance budget would be included in the CCC budget and would come before appropriations committees each year. The insurance operation figure would be identified and there would be a funding mechanism after the fact. It would be through the annual appropriation mechanism.

Senator YOUNG. So you no longer use the charter system?

Mr. DEAL. No.

FARM PRODUCTION PROTECTION VS. PRESENT DISASTER PROGRAMS

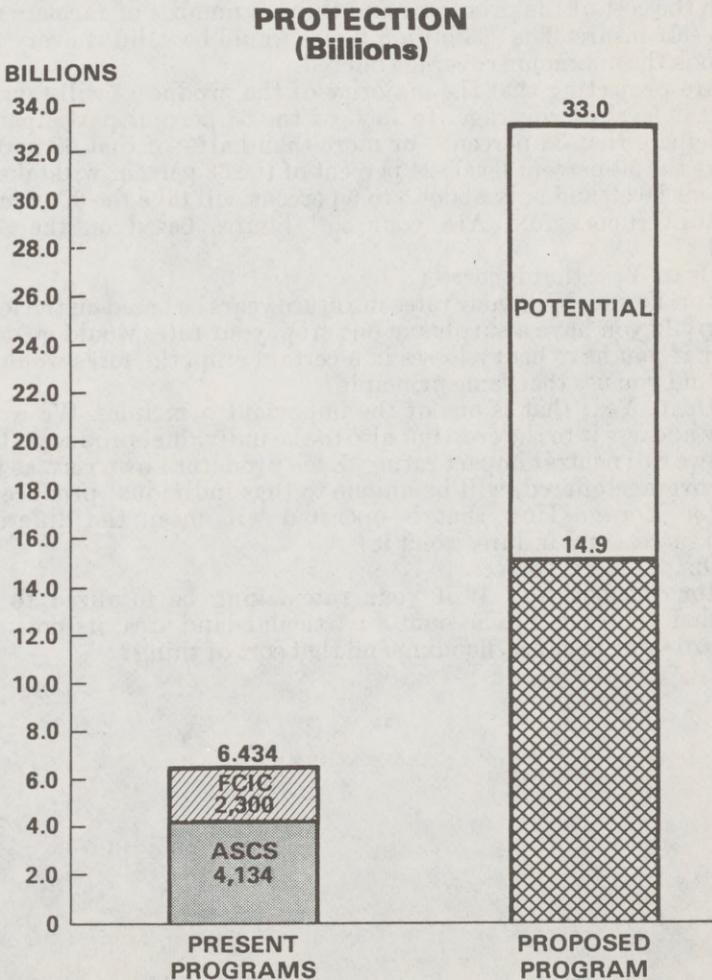


CHART 11

Chart 11 on page 15 gives you a comparison of the magnitude of the proposed program versus the present one. We took two programs that offer protection to producers. The first one, under the low-yield disaster program, has a total protection value of about \$4 billion. The present Federal crop insurance, offers about \$2.3 billion of protection.

On the low-yield disaster program, the figure is based on last year's protection. This year, we could not project it, because we did not know the number of people that would comply with the set-aside to obtain the maximum protection—this gives you approximately \$6.5 to \$7 billion of protection that is available to producers under the present two programs—the low-yield disaster program and the present Federal crop insurance program.

We are proposing a program that could have the maximum protection exposure of \$33 billion for producers. We project in 3 to 4 years farmers will sign up for about \$15 billion of that \$33 billion.

The farmers would not participate in the entire \$33 billion because first, it is a voluntary program; second, the farmer is going to have to share in the cost of the program; and third, a number of farmers may elect to self-insure. The \$33 billion figure would be valid if every producer took the maximum coverage offered.

We are projecting that the majority of the producers will take the 50-percent level of coverage. In fact, of the 68-percent participation, we anticipate that 38 percent—or more than half—of that 68 percent will take the 50-percent level; 24 percent of the 68 percent will take the 70-percent level, and only about 5 to 6 percent will take the 90 percent.

Senator HUDDLESTON. Are your cost figures based on the \$14.9 billion?

Mr. DEAL. Yes; that is correct.

Senator YOUNG. Will your rates in future years be based on the losses per crop? If you have a surplus in one crop, your rates would go down some, or if you have heavy losses in a certain crop, the rates would go up? Would you use that same principle?

Mr. DEAL. Yes; that is one of the important principles. We would not only address it to the crop but also to the individual producer. That is what we call neutral impact rating. Each producer's own risk, as well as the coverage offered, will be unique to that individual producer.

Senator YOUNG. How that is operated will mean the difference between success and failure, won't it?

Mr. DEAL. That is correct.

Senator HUDDLESTON. Will your ratemaking be localized to the extent that you take into account a particular land area, its potential for hazard—for instance, flooding and that sort of thing?

Mr. DEAL. Yes; in the local ratemaking process, you have two variables that you have to look at. The first one is the capability or risk of the land. The second one is the managerial capability of the individual producer.

These must be welded together for a composite. Then a risk is established. This is why we feel it is important to work with local committees who know the communities and the producers.

Senator HUDDLESTON. And they will have input in the ratemaking, as well as administering the actual sale of the insurance.

Mr. DEAL. That is correct. They will be assisting us and helping us give the individual producer adjustment.

Senator HUDDLESTON. Would that have a tendency to move crops away from certain high-risk areas, if the premium got exceedingly high in a particular State or county, or even a smaller locale?

Mr. DEAL. That will be a function of the commodity credit board, and within CCC there will be a separate operating insurance function that has the authority and the responsibility for the actuarial data.

The role the local people will play is that of an assistance role, so that the authority will lie with the actuarial function where the professionals are.

One of the major goals of our proposed program is to obtain what we call a neutral rating impact, so each producer is treated alike. If we are looking at high-risk areas versus low-risk areas if we have done our job properly, then there should not be a tendency to tilt away from risk areas.

Senator YOUNG. Old line companies now are handling hail insurance in my State, for example. There are certain areas, certain counties, where they seem to get more hail than others, so that the insurance companies charge a higher premium in some counties than they do in others.

I imagine you would have to do somewhat the same thing in this program, wouldn't you?

Mr. DEAL. Right; we will calculate the individual risk for the individual producer on his farm.

Senator YOUNG. Well, they go by counties there, you see. The old line insurance companies handling hail insurance now go by counties, rather than the individual farmers.

Mr. DEAL. I think in many of their cases, they get down to the individual township even. But we hope to be able to refine it even closer to that of the individual producer.

It should be pointed out when you are dealing with all-risk as opposed to hail, you have a different element of risk.

COMPARISON OF PROTECTION

DISASTER CROPS

CORN

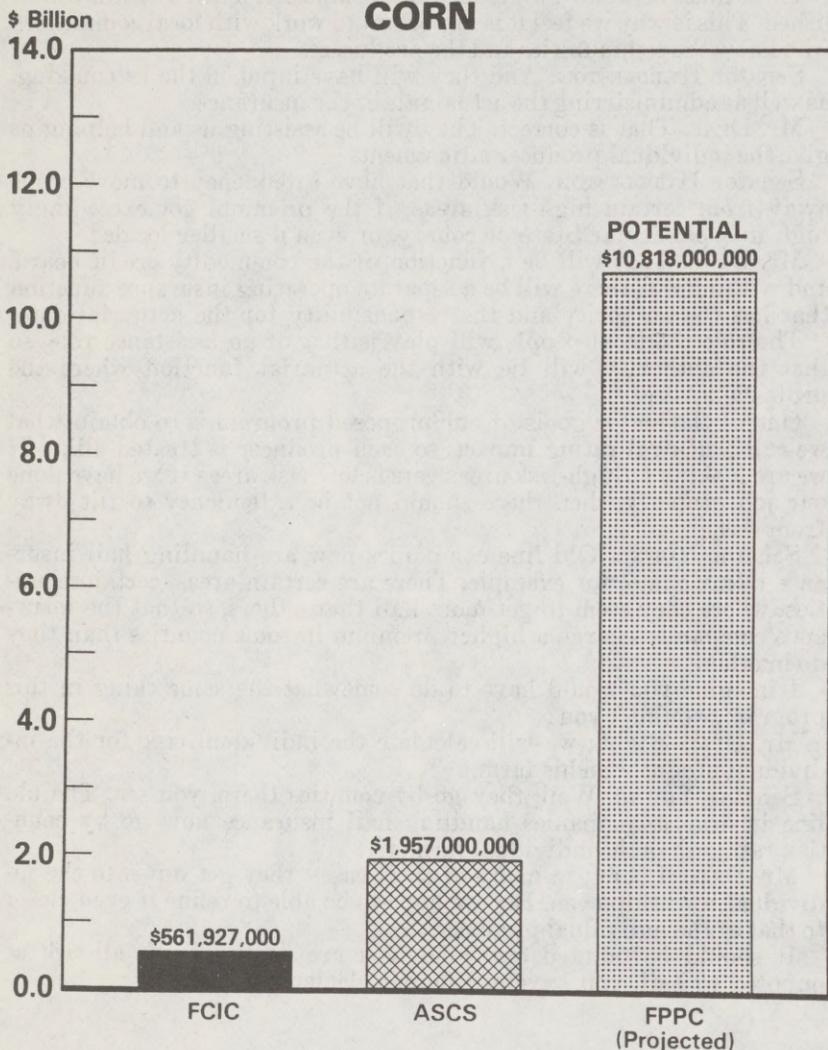


CHART 12

This is a comparison chart. We showed you earlier that corn was the largest comparison commodity. On the chart we merely point out what Federal crop insurance is offering in protection, what the present low yield disaster program is offering in protection, and what the proposed program would have the capability of offering.

COMPARISON OF PROTECTION

DISASTER CROPS

WHEAT

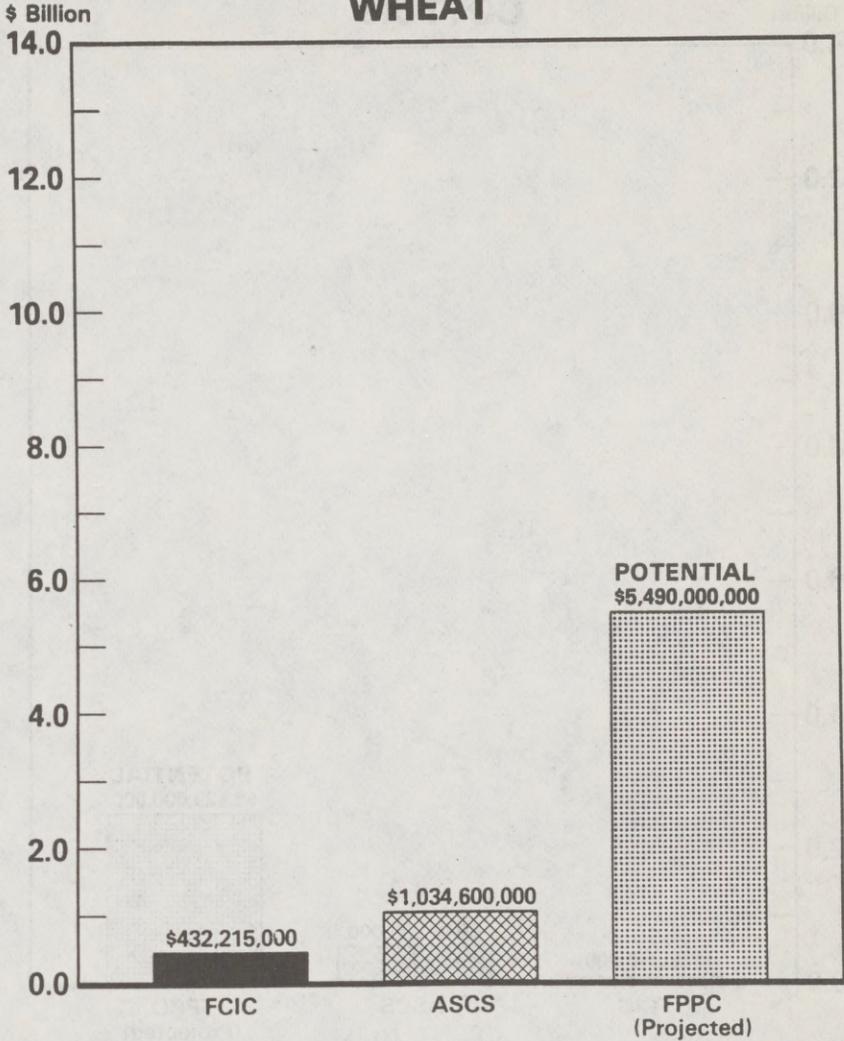


CHART 13

This is the chart for wheat, with similar information.

COMPARISON OF PROTECTION

DISASTER CROPS

COTTON

\$ Billion

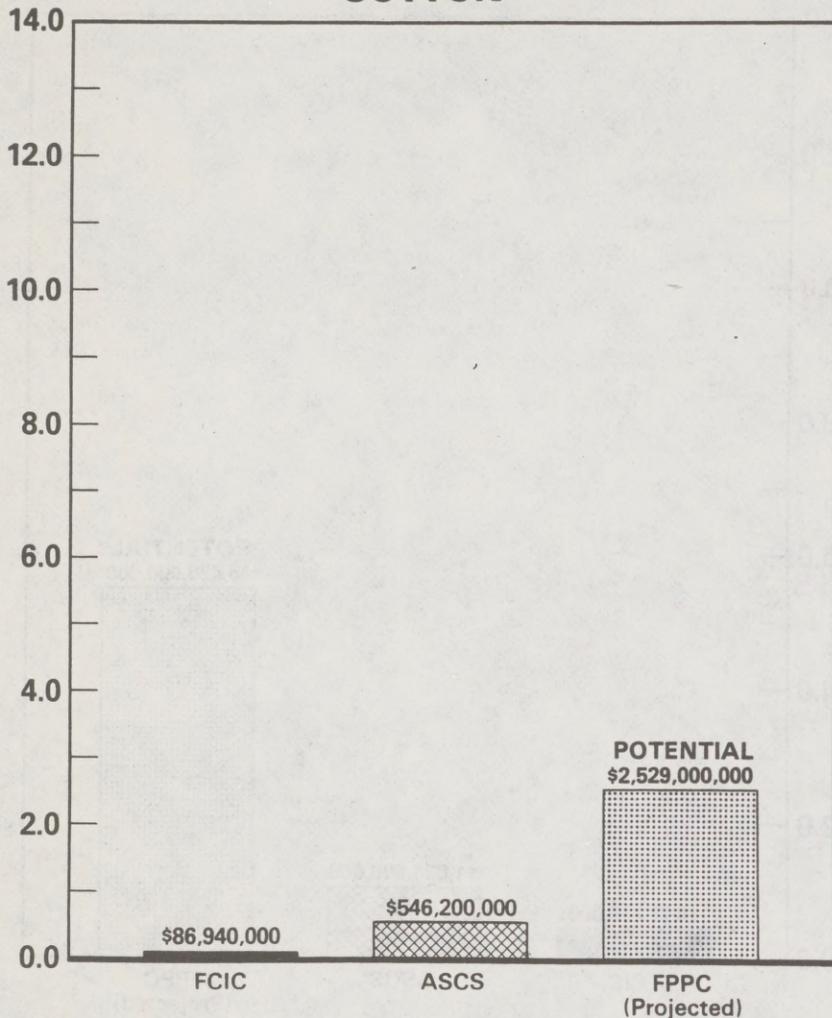


CHART 14

And cotton.

FEDERAL CROP INSURANCE CORP.
CROP PROTECTION BY 1989

(EXISTING PROGRAM)

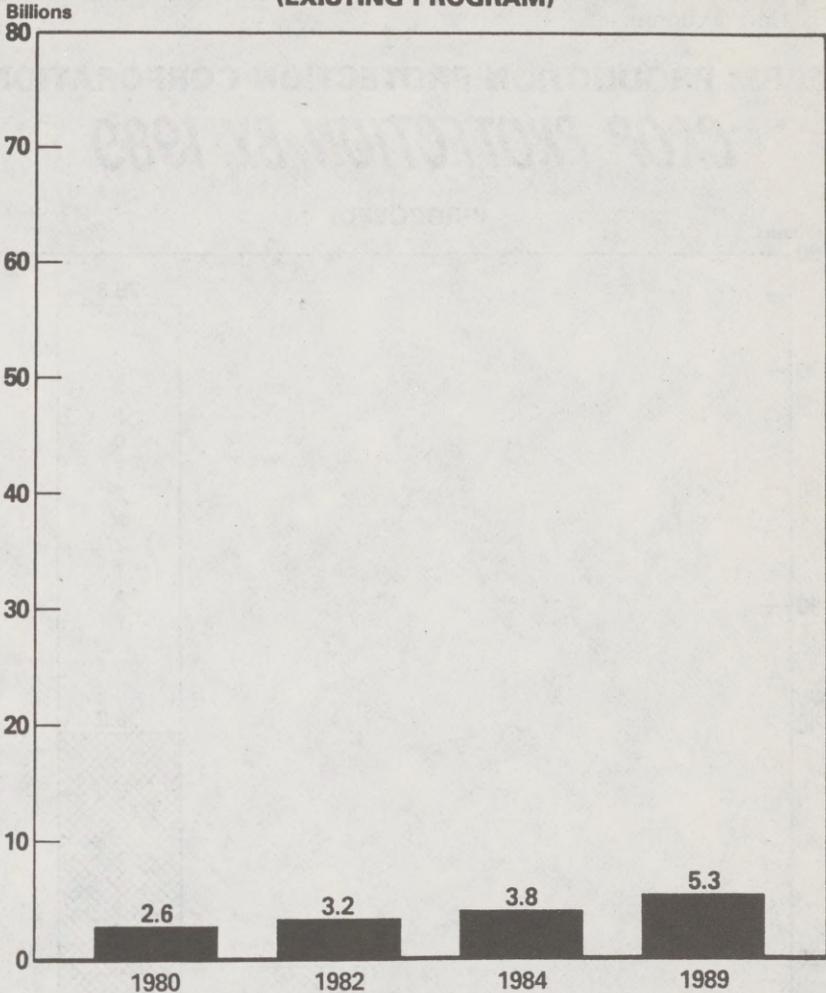


CHART 15

We present this chart to point out what could be expected in growth under our present Crop Insurance Act, with no change in the program in any way, and dealing with the present funding mechanism of limitation on appropriations.

As you can see, the growth is very slow because of the limitation on appropriations and program expansion. However, there was a actuarial research commissioned corporation study by the Department which dealt with this issue. The study revealed that under proper funding it would be possible to double the protection from \$5.6 billion to somewhere between \$10 to \$13 billion, but that would be the maximum.

FARM PRODUCTION PROTECTION CORPORATION *CROP PROTECTION BY 1989*

(PROPOSED)

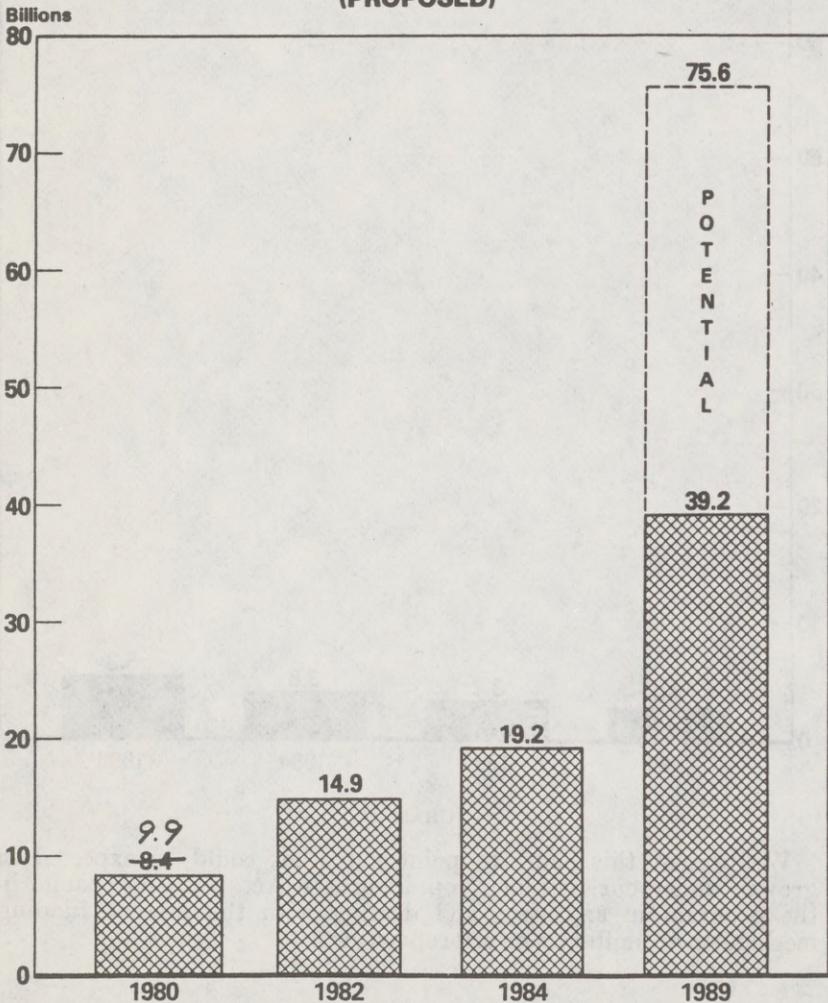


CHART 16

Chart 16 continues with the last point and shows the potential that we could offer in protection for producers. If you recall, we were using \$84 billion as cost of production figure. We are saying that this program theoretically has the potential of offering a program up to \$75 billion of protection.

DETERMINING INDEMNITIES PAYABLE TO FARMER FARM PRODUCTION PROTECTION ACT CORN

1. PRODUCER BASE	
YIELD	100 BUSHELS
2. FPPC GUARANTEE	70 BUSHELS

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	40 BU.	20 BU.
BUSHELS LOST BELOW FPPC GUARANTEE	30 BU.	50 BU.
LOSS PAYABLE TO PRODUCER*	\$63/AC.	\$105/AC.

* LOSS FIGURED ON PRICE ELECTION OF \$2.10/BU. FOR
CORN MULTIPLIED BY NUMBER OF BUSHELS LOST
BELOW FPPC GUARANTEE.

Mr. DEAL. Chart 17 shows how the program will work for the the producer.

Here, we have a sample on corn. We set a base yield on an individual farm at 100 bushels. If, for example, the farmer takes the middle option or 70-percent level protection plan, so we guaranteed him 70 bushels of production.

When he applies for insurance to protect those 70 bushels, he also will have price selection options. Usually the top price option will be relatively close to the higher target or loan price.

In this example he had 40 bushels of corn after harvesting. That means he is 30 bushels short of his 70 bushel guarantee. He chose a price selection of \$2.10. Multiplying the price selection times the 30 bushels short he has an indemnity or a loss of \$63 per acre.

Senator YOUNG. And that would be for the whole farm now?

Mr. DEAL. That is correct.

Senator YOUNG. He could lose one field and have a big crop in another.

Mr. DEAL. That is correct.

Senator YOUNG. He selects not only the percentage of production, but he elects the price at the same time.

Mr. DEAL. That is correct. He will have three options of coverage levels—50, 70, or 90—and he also will have three price selection options.

Senator HUDDLESTON. Can he select a price higher than the market price that might prevail?

Mr. DEAL. Yes; it's possible. He could select a price that the board of directors establishes as a high option, and it would not necessarily tie to target or loan.

We tried to relate the high option price selection to cost of production.

Senator HUDDLESTON. So it does not relate either to target, loan, or actual market price?

Mr. DEAL. No.

**DETERMINING INDEMNITIES
PAYABLE TO FARMER
FARM PRODUCTION PROTECTION ACT
WHEAT**

1. PRODUCER BASE		
YIELD		28 BUSHELS
2. FPPC GUARANTEE		20 BUSHELS

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	6 BU.	12 BU.
BUSHELS LOST BELOW FPPC GUARANTEE	14 BU.	8 BU.
LOSS PAYABLE TO PRODUCER*	\$42/AC.	\$24/AC.

* LOSS FIGURED ON PRICE ELECTION OF \$3.00/BU. FOR WHEAT MULTIPLIED BY NUMBER OF BUSHELS LOST BELOW FPPC GUARANTEE.

CHART 18

This chart is a wheat example based on the same procedure as the corn example.

Senator HUDDLESTON. But it can exceed the target price? You can make that selection.

Mr. DEAL. It can, yes. If the price selection is available.

Senator YOUNG. Can you explain the wheat again?

Mr. DEAL. Yes; the base yield on the farmer's wheat farm is 28 bushels. In this particular case, the farmer selected 70 percent coverage plan. We guaranteed him 20 bushels of wheat. In this case, the producer actually harvested six bushels of wheat. So he is 14 bushels short of his guarantee.

We used a \$3 price as his price selection. We multiply the \$3 times the bushels he is short, which gives him a \$42 per acre loss on his farm.

Senator YOUNG. Would he have to harvest that 6-bushel crop? That would be a losing business.

Mr. DEAL. We do not force, nor will we force the farmer to harvest. Whether he wants to harvest or not, is his opinion. If he decides not to harvest, and, there is a potential yield in the field, we would appraise it and charge that against his guarantee.

But the option is his whether he wants to harvest or not.

Senator YOUNG. It would be a complicated problem. I can see a lot of possibilities in this program, but it is one that would have to be kept entirely out of politics, and one where you would have to have trained people and keep them at it.

You might succeed, but I can see here it could be a disaster.

Mr. DEAL. The next chart illustrates the same procedure with cotton. You are dealing with pounds in this example. He had a 600-pound base yield, and in this particular example, under the 70 percent coverage plan, he had 420 pounds guaranteed. We took his actual production and subtracted it from his guarantee, and computed a 320-pound loss. In this case, we used a 52-cent-a-pound price selection. We multiplied the 52 cents times the pounds short, and it computed a loss of \$166.40 per acre.

**DETERMINING INDEMNITIES
PAYABLE TO FARMER
FARM PRODUCTION PROTECTION ACT
COTTON**

1. PRODUCER BASE		
YIELD		600 POUNDS
2. FPPC GUARANTEE		420 POUNDS

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	100 LBS.	250 LBS.
POUNDS LOST BELOW FPPC GUARANTEE	320 LBS.	170 LBS.
LOSS PAYABLE TO PRODUCER*	\$166.40/AC.	\$88.40/AC.

*LOSS FIGURED ON PRICE ELECTION OF \$.52/LB. FOR COTTON MULTIPLIED BY NUMBER OF POUNDS LOST BELOW FPPC GUARANTEE.

This chart, again, shows you what the present disaster program does as it relates to cost of production. The present low yield disaster program protects about 30 percent of the total cost of production. The three new options that the farmer will have—the 50-percent option, the 70-percent option, or the 90-percent option—all are above the present disaster program levels.

Senator HUDDLESTON. In considering yields, how do you take into account whether or not the farmer is doing everything he can do to

FARM PRODUCTION PROTECTION VS. DISASTER PAYMENT PROGRAM

Percent of Cost
of Production

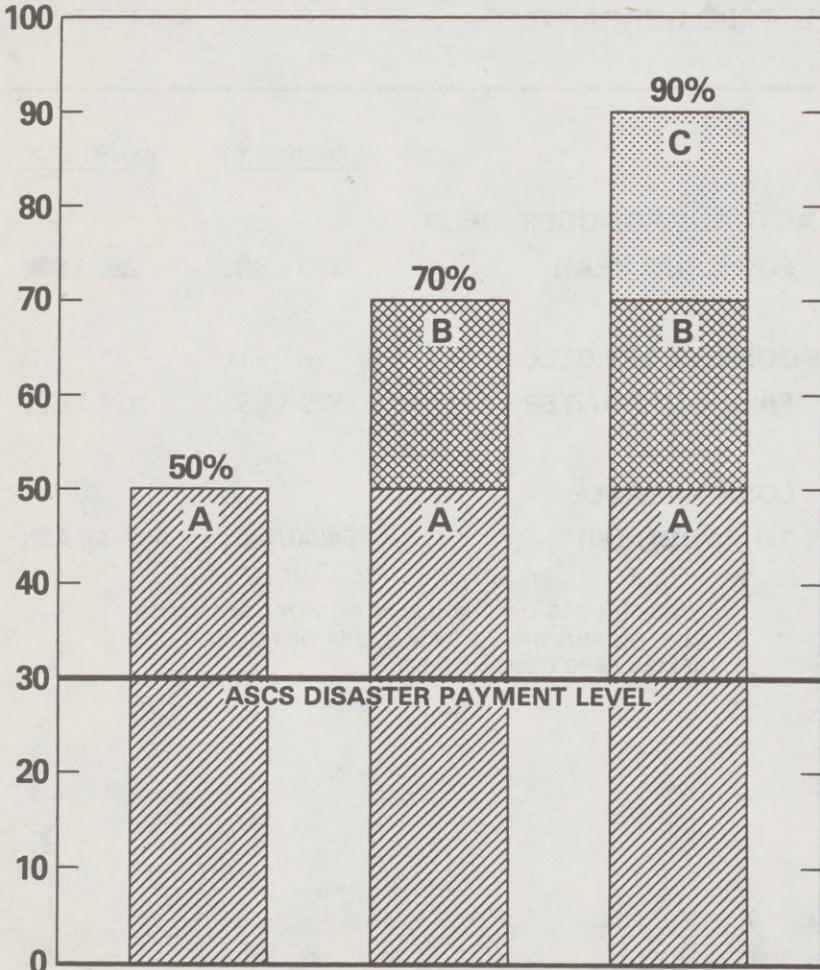


CHART 20

have a normal yield—for instance, the use of fertilizer, the time he plants the crop or whatever.

Mr. DEAL. Yes; this factor will be part of the process of utilizing the local committee. Poor management will identify itself after the fact, because it will relate to the actual losses that the farmer has and the particular yields that he produces.

Senator YOUNG. Of course, you raise an important question that has been a problem with the old program, that the farmers that have consistently better yields tend to stay out of the program, and the low-yield farmers are the ones that want to get into it.

Mr. DEAL. We agree with you, and this is why we feel it is so important to address the new program to the individual producer and identify his actual risk as it relates to his farm and his coverage.

Senator HUDDLESTON. I was just wondering if a farmer bought insurance on 75-percent production, and then he saved a little money on seed, by purchasing a lower yielding variety, and saved a little money on fertilizer, and then collected, whether or not it might be a bonanza for him. I was just wondering how that possibility will be dealt with.

Mr. DEAL. That would be dealt with by the individual adjuster, and we agree with you, Senator, they have to be professional people.

In that way the bill that we propose is very similar to our present Crop Insurance Act; the producer must follow good farming practices.

When an adjuster is in the field to adjust a loss, he must look at the field and must compare it to neighboring farms, to detect whether there is poor management. In the event that he does uncover what we consider to be poor farming practices, we appraise against his guarantee those losses which are man-made.

Senator YOUNG. Under our present farm program, farmers can be paid on their established yields, if they want to. Some farmers have established a considerably higher yield over a period of 3 to 5 years. Would that be taken into consideration?

Mr. DEAL. Yes; again, that depends on the commodities involved and it varies by geographical area. We find in the Pacific Northwest that there are fairly adequate records on actual yields of wheat. However, when we get in the Midwest, it gets more difficult.

Senator YOUNG. I am concerned more with the question that the chairman raised, that some farmers consistently cultivate more, put on more fertilizer, and get better yields year after year than others do.

Mr. DEAL. That would be recognized in the yield guarantee that we offer to the individual producer.

This concludes our chart presentation. However, there are two basic issues involved. One, which we have already covered is what the program will do as it relates to the farmer. The other issue lies around the administration of the program.

One of these major issues of administration is the involvement of private insurance agents or private industry.

It is an issue that is of concern to the Secretary. In fact, we have had a number of meetings with private industry, and the Secretary participated; in the first session.

It is our intent to aggressively utilize private industry in obtaining our objectives and goals. We feel it is necessary if we are to penetrate the market to the extent that we think is necessary. If this program is going to be successful, we must solicit the help of the professionals—the private insurance agents in the local areas.

Senator HUDDLESTON. Well, I take it they would actually sell the insurance policies to the farmers?

Mr. DEAL. Correct.

Senator HUDDLESTON. Would they also figure into the premium determining procedures?

Mr. DEAL. No; we foresee using them as a marketing arm not only in the initial marketing of the program, but also helping in the retention of the producer in the program.

Senator HUDDLESTON. For which they would receive a commission?

Mr. DEAL. Correct.

The other, more major issue that we have discussed at length with industry hinges on removing the perils of fire, hail, and lightning from the proposed program.

We do not see this is a viable option in any way, because if this program is truly to replace the other disaster programs, we feel it has to be all-risk from the standpoint of losses attributed to nature.

In our discussions with the industry people, we pursued the possibility of offering an exclusion policy, where we would eliminate these perils, provided it was at the producer's option.

The other issue is more philosophical. Will this program truly affect private industry; and eliminate the private insurer's business, or will it enhance their insurance business?

I think there are strong arguments both ways on this. Industry feels that the proposed bill will eliminate them from the fire and hail insurance business. We think the opposite is true.

Based on increased insurance awareness we think there will be increased participation in the private crop-hail business.

There are no statistics to prove a strong case one way or the other. There are indications that the insurance awareness issue will increase the total insurance desirability. For example, in the State of North Dakota, the amount of private hail insurance, grew when crop insurance entered the State. In fact, North Dakota is FCIC's highest participating State, as it relates to total potential.

Through the years, there have been many studies done. One such study was done by the Warfield committee, which was a committee of the National Association of Insurance Agents. Another one was the Vanderbilt report, which was an insurance company report. There was another study done in the "fifties," which was called the Mays report, which was done by an advisory committee appointed by Secretary Benson to analyze crop insurance. There is the Task Force 70 report,* and the last one is the Actuarial Research Corporation, known as the Trapnell Study.* All these issues are addressed in this study.

Senator HUDDLESTON. Do you have those studies to make available to the committee?

Mr. DEAL. They are all part of historical congressional record.* We can furnish them for you.

To conclude on the industry issue, trying to compare hail insurance to an all-risk policy is like trying to compare car insurance to life insurance. They are entirely two different concepts and approaches.

With an all-risk policy, we guarantee against loss of production. We take a given farm or unit, and we guarantee so much production, and not until that production falls below a certain level will it start to be indemnified. And then, the farmer will only receive indemnities for the amount he is short of the actual bushels produced.

On the contrary, hail insurance insures a value of the crop against a percent of loss. Assuming a no deductible policy for any loss incurred on hail insurance will pay a percentage whether it be for a few acres or the whole thing.

So we sort of looked at the two programs as hail insurance adjusting from the top down, and crop insurance as a production loss program, adjusting from the bottom up. They are quite different in nature.

From the standpoint of pure economics and from the farmers' standpoint, we looked at the nationwide figures on the full value of the hail insurance policy, and the cost to the producer was around \$4.30 a hundred.

Under the proposed crop insurance program we are limited to protecting up to 90 percent of the cost of production, which is considerably less than the full value of the crop.

When we look at the cost to the farmer—if you recall the chart—for that last 20 percent from 70 to 90, it is going to cost him about \$24 a hundred. The average cost to a farmer who decides to participate at the 90-percent level is around \$11.50 per \$100 protection.

If the producer is looking at hail protection, just simple economics is going to tell him to buy a hail insurance policy at \$4-and-some a hundred, rather than to pay that \$24 a hundred that we would have to charge under the all-risk policy.

Those are some of the underlying issues. We will answer any more questions you may have.

Senator HUDDLESTON. What is your rationale for utilizing the Commodity Credit Corporation in handling the program rather than setting up a separate corporation?

Mr. DEAL. There are two reasons, basically. It is compatible with the Carter reorganization plan to streamline Government.

And this it does, in fact, eliminate one corporation and one agency. I might add that by doing this it will not reduce the number of people that are needed to administer the program.

Senator HUDDLESTON. Does that mean you would have to beef up the CCC personnel levels in order to accommodate this program?

Mr. DEAL. Yes. If you recall, there is a section in the proposed bill that talks about the discrete organizational unit of the Corporation. This essentially would be the same unit that presently is the Federal

*See pp. 58-74 for material supplied by Mr. Deal on the historical background of crop insurance. The Task Force 70 report and the study by the Actuarial Research Corporation have been retained in the committee files.

Crop Insurance Corporation. Its functions would relate to the actuarial program development, and loss adjustment and such other functions as may be assigned by the Secretary.

The discrete organizational unit would operate as a separate entity, reporting directly to and responsible to the insurance manager and the Commodity Credit Board.

The second reason is the Commodity Credit Corporation established borrowing authority. Therefore no funding was necessary.

Senator HUDDLESTON. Since the insurance manager is the only representative on an eight-person board of directors, won't it be difficult to maintain separation of the insurance program from the other broad USDA decisions, and could this possibly lead to any political abuses?

Mr. DEAL. I think any time you increase the responsibilities of any corporation, you increase the areas of difficulty.

I can only address the question for the Secretary and this administration. The Secretary has very clearly laid out his option of how he perceives the program working. From the administration's standpoint I see no difficulty in operating through the Commodity Credit Board.

Senator HUDDLESTON. Section 15 of S. 3029 mentions a discrete organizational unit. What will that consist of, and how will it operate?

Mr. DEAL. This refers to the major objectives of building the program from an actuarially sound base and addressing to the individual producer's needs. A determination was made early that in order to obtain a neutral impact of rating, you must establish and set up separately from your ongoing delivery the functions of loss adjustment and actuarial. These two major functions would be separated from any type of delivery.

Senator HUDDLESTON. They would operate strictly on the basis of statistics and facts relating to actual production and hazards.

Mr. DEAL. That is correct.

Senator HUDDLESTON. Do you think a subsidy of premium is a desirable mechanism for gaining participation?

Mr. DEAL. I would say it is not only desirable, but almost required. We base that on a couple things. First of all, under the present crop insurance program, we are presently only in 1,522 counties, in these counties we are in the average or low-risk areas, and are not in the high-risk areas.

We presently only have 14 percent of the potential participating. On the other hand, when we look at the Canadian program that has a very similar all-risk program and where they subsidize the premium by 50 percent they run from 65 to 85 percent participation.

We feel it is necessary if the program is going to be affordable to all producers.

Senator HUDDLESTON. What type of delivery system would be necessary if FCIC were given the job of handling the new program instead of the CCC?

Mr. DEAL. That they would be virtually the same at the county level.

Senator HUDDLESTON. Are there limitations in the administration bill being considered by the committee that are not in the present FCIC Act?

Mr. DEAL. The only limitation is that we are limited under the proposed bill to offering up to 90 percent of the cost of production; where,

under the present act, we can offer up to 100 percent of the cost of production.

Senator HUDDLESTON. I understand that tobacco is one of the better FCIC programs, not only in terms of participation, but because the coverage is higher and the premiums are lower in comparison to other FCIC programs.

What effect would this new legislation have on tobacco, for instance?

Mr. DEAL. You are correct that tobacco is one of our very high producer participating crops. We have approximately 40 percent of the total eligible tobacco acreage insured in the program.

Under the proposed program, the only problem that could be encountered with tobacco and peanuts is that in many of our counties we are offering up to cost of production.

Under the proposed bill we would have to reduce coverage by whatever amount to comply with the 90-percent limitation. From the cost standpoint to the producer, the cost would be considerably less to him than what he is presently paying.

Senator HUDDLESTON. I have two questions now that were submitted by Senator Clark. I think they came up in a hearing that Senator Clark had out in Iowa.

Would you coordinate and run the field operation through one agency, or are you going to have a multitude of channels from Washington down to the local level?

I assume that you would have a corporate staff to determine premium rates and do the technical work aside from the ASC field structure. But I am concerned about how you really propose to administer the program in the field.

I think you have addressed a good part of that question, but would you have a comment on it further?

Mr. DEAL. Yes. Getting the service close to the producer is very important as it relates directly to participation.

We feel we must tie to the local USDA office for the contact point and the delivery point of the program. For that particular service the Commodity Credit Corporation would go to the Administrator of ASCS and assign that function through him. The only functions that would be separated are the actuarial program development and loss adjustment and other duties assigned by the Secretary which would be handled by the discrete organizational unit of the Commodity Credit Corporation.

Senator HUDDLESTON. Again, following the hearings on the House side, there appeared to be a good deal of confusion on the issue of reinsurance for companies who might propose to go into all-risk coverage if the Government would reinsure them.

Do you plan to set up some reinsurance arrangement with private insurance firms who may seek to write all-risk policies if the Government would reinsure the losses?

Mr. DEAL. This is another issue that was discussed in some detail with industry at the onset of development, and it was one of the issues the Secretary recently discussed with them.

It was not an option we put in the proposed legislation. It is not a viable option because it would take a number of years to implement, and we are looking for a program that could be immediately put in

place to replace the disaster programs. Second is the cost of reinsurance. Again, this is an issue of discussion between the Secretary and industry, and we have no strong feelings against a reinsurance provision in the proposed legislation.

Senator HUDDLESTON. Does the Department feel some urgency in the passage of this legislation and implementing the new program?

Mr. DEAL. Yes; very much so. The Secretary's concern is that it be passed just as quickly as possible.

Senator HUDDLESTON. Well, Mr. Deal, thank you very much. I believe that is all the questions we have this morning.

Mr. DEAL. Thank you.

Senator HUDDLESTON. Our next witness this morning is Mr. Herman Propst, the chairman of the producer steering committee of the National Cotton Council.

STATEMENT OF HERMAN PROPST, CHAIRMAN, PRODUCER STEERING COMMITTEE, NATIONAL COTTON COUNCIL

Mr. PROPST. Mr. Chairman, my name is Herman Propst, and I am a cotton farmer from Texas and presently serve as chairman of the producer steering committee of the National Cotton Council.

The council, in whose behalf I am testifying, represents all segments of the raw cotton industry from grower to manufacturer and from coast to coast.

The committee which I chair is composed of rural representatives selected by cotton producer organizations in each of the 14 major cotton-producing States. We believe it provides a true cross section of producer viewpoint across the Cotton Belt.

The committee is the producers' advocate within the council. It has the responsibility of developing recommendations on price and production policy for consideration by the council's program committees and, in turn, the delegate body.

In February, at the council's annual meeting in Houston, Tex., producers and other delegates gave very serious attention to proposals for expanding and improving protection for farmers against abnormal weather and other conditions beyond their control.

The position finally agreed to was spelled out in a resolution reading as follows, and I quote:

The council recommends a widely affordable, all-risk Federal crop insurance program for cotton, wheat, feed grains, and rice, which should (1) begin upon expiration of 1977 act disaster payments; (2) be funded by the Commodity Credit Corporation; (3) be based on individual farm yields and area production costs; (4) be sold and serviced by both ASCS offices and private agents.

The council advocates that Federal reinsurance be offered to private insurance companies at a cost and in a manner which will permit them to sell the same coverage at the same cost as Federal crop insurance.

The council supports extension of reasonable crop insurance protection to crops lost as a result of strikes, embargos, or boycotts against producers where a good-faith effort has been made to salvage such crops.

The council resolves to work to extend the disaster provisions of the 1977 Food and Agricultural Act for an additional 2 years unless an adequate crop insurance program can be enacted.

In July, the producer steering committee met again in Dallas, with representatives of the Federal Crop Insurance Corporation and officers of cotton-producing organizations across the Belt, to discuss the bill

which is the subject of these hearings. We also heard and considered plans by the Department of Agriculture to implement the Federal crop insurance program which the bill would authorize.

After 2 days of discussion, the steering committee voted to reaffirm and support the resolutions I just quoted. There was a feeling that S. 3029 would allow USDA to develop a crop insurance program that meets our specifications in many respects. But some reservations were voiced about the fact that the bill does not contain specific instructions to the Department concerning the program's implementation.

We feel very strongly that the law should require USDA to base its crop insurance on individual farm yields obtained from any reliable source. In our opinion, the FCIC program of past years failed primarily because yields were insured on a countywide or areawide basis, which resulted in adverse selection. While we understand that USDA presently intends to move in this direction, some future administration might not be so inclined.

The bill also provides authority for the Commodity Credit Corporation to share its premium costs, but sets no minimum or maximum. It authorizes the Corporation to offer protection up to 90 percent of the cost of production of a commodity, "subject to such adjustments as the Corporation may prescribe." We are given no hint of what those adjustments may be. The Corporation may offer lower levels of protection "where deemed practicable," but the bill is silent as to how that could be.

In short, Mr. Chaiman, we agree with the objectives of the bill, but are afraid that it leaves too much to the discretion of the Department. Our producers are concerned about costs per acre, limits on coverage, the levels of CCC cost sharing, and what if any restrictions may be placed on farming practices or land use in order to qualify for coverage. We wonder what "representative period" of time will be used to determine farm yields, loss ratios, and costs of production—5, 10, or 20 years? The bill is silent, except to grant the Corporation the authority to decide. It authorizes the Secretary to appoint an advisory committee, but is silent on its makeup, size, responsibility, or authority.

We realize, of course, that an undertaking of this magnitude is most complicated. Few farmers are expert in the field of insurance. There is a need for flexibility in the law. But experience is a good teacher, and the history of past programs has made many of our producers somewhat skeptical of benevolent Government.

Administrations and Secretaries of Agriculture are subject to change, as are regulations of farm programs. Therefore, we recommend that additional program details be included along the lines we have suggested.

Section 3(i) of the bill provides for reinsurance of crop insurance offered by Government agencies in some offshore territories. We believe reinsurance should be offered to any qualifying public or private organization in the 50 States as well, and it should be done in such a way that private insurance companies can sell the same insurance program as USDA at the same cost to farmers. Insurance has to be sold if the volume is to be achieved that will provide an affordable, low-cost program.

The profit incentive of the private sector is needed to achieve that volume, not only in the form of sales commissions, as provided under

the bill, but also in permitting private companies to offer comparable policies of their own.

As USDA explained the program it plans to offer under this bill, there would be a single reimbursement rate or set of rates offered to all producers of a particular crop. Because of wide differences in the quality of cotton crops of different regions and in their cost of production, we feel that reimbursement rates should be established regionally. If this is not done, the insurance could provide a windfall in some areas and be virtually unsalable in other areas, because of lack of adequate protection.

According to the latest available figure, the average price received by farmers for cotton in Texas and New Mexico differed by 8.6 cents or 16 percent. New Mexico chiefly grows a long staple, high-strength variety, while in Texas, short staple, low-strength varieties predominate.

Actually, if the plains and blacklands areas of Texas could be shown separately, the price difference would be much wider. As we mentioned, production costs also differ very substantially. The USDA periodically surveys production costs and publishes them individually for 15 regions. This information, along with price differences, could be used to tailor reimbursement rates to fit different growing areas more effectively and fairly.

Mr. Chairman, we commend you and your committee and the USDA for efforts to put in place the adequate protection farmers need for the uncontrollable risks they face.

We believe that you are moving in the right direction and, with the modifications we suggest, we feel that you will meet this need in a way that is good for farmers, our Government, and our Nation as a whole.

Thank you.

Senator HUDDLESTON. Thank you, Mr. Propst.

Do you think there is a great deal of interest among cotton farmers for an expanded crop insurance program, such as the one we are talking about, or of any other nature?

Mr. PROPST. Mr. Chairman, I think it depends on the area where the grower farms. Certainly, the grower is interested in protection, either through an extension of the disaster provisions or crop insurance.

At this point, most of the producers do not know enough about the program—in other words, there has not yet been enough meat put on the bones that they could say they would be interested or not interested.

Senator HUDDLESTON. Would it be your estimate that a good crop insurance program, whatever is arrived at, would be saleable to a good percentage of cotton producers?

Mr. PROPST. Certainly, it would be more saleable to the producers in the high-risk areas. But in order for it to be affordable, it has to have broad-based participation.

I understand that the Department has estimated that in 3 or 4 years 68 percent of the acreage would be covered. I do not know what is going to happen from the time that the disaster provisions expire at the end of the 1979 crop year until 1982. What percent would be covered from that time until the early 1980's? I am concerned about the other 32 percent that might not be covered at all.

Senator HUDDLESTON. Plus, that period of time, the transition period, from eliminating the old program and going to this one, you may have 3 years or more where there would be a lot of unprotected crops.

Mr. PROPST. Yes, sir. This program, I think, must be sold.

Senator HUDDLESTON. Well, in the selling of it, utilizing both Federal personnel and private insurance agencies, what do you see as a competitive situation that might develop on a local level, as you would have both entities out there, trying to sell? They are selling the same product, essentially.

Mr. PROPST. If there is no profit incentive, it would appear to me that there would be problems in getting it sold.

Senator HUDDLESTON. There would be profit incentive, of course, for the private insurance agents through the premium commission that they would receive. There may be some question whether they would make as much selling Federal insurance as selling their own.

Mr. PROPST. On the local level, I would say that the agent that is going to be selling the policy is going to have some feel for the individual that he sells that policy to. And if at that point, as soon as he sells the policy, he is taken out, I think that there may be problems, because he is a personal friend, and this man is probably already his client. I think that at some point, the person that sold the policy may run into problems with his client, if in fact there was a loss, and the farmer was not compensated at what he thought was a fair return. I think there could be some problems, people problems.

Senator HUDDLESTON. You mentioned in your statement that while authorizing the Department of Agriculture to share in the cost of premiums, the bill sets no minimum or maximum on the Federal share. Do you have any ideas on what the limits of what the Federal share of the premium cost should be?

Mr. PROPST. There is a lot of concern that it should be actuarially sound. Of course, any business should be actuarially sound. If it is actuarially sound, I think that there will be a lot of producers that will not participate unless their lending agency requires it.

We have had some meetings with members of the Federal Crop Insurance Committee; I have bounced this off of lending agencies, and they indicate to me that it is tailor-made for them. While it may be tailor-made also for the producer, it is tailor-made for lending agencies, because not only would they be guaranteed a return on the production loans, they would be collecting interest on the premium itself.

So it would certainly be good. Until we know more about the specifics of the administration bill—

Senator HUDDLESTON. You indicate, too, that it might give too much discretion to the Department of Agriculture. What are your concerns there? I take it, discretion in determining the premium rate and the yields that might be established.

Mr. PROPST. And what land could be covered and what could not? Senator HUDDLESTON. Yes.

Mr. PROPST. My farm might not be covered, even though it has been farmed for 20 to 30 years by the same family. It might be that the FCIC might determine that it is in a too high-risk area and should not be farmed.

Senator HUDDLESTON. You also indicate that the individual farm yields ought to be determined by any reliable source. Now, what, other than the source that has been suggested by the Department, of utilizing the local ASCS committees, looking at the individual farmer himself, his method of operation, the land that he is farming on, the area that he is in, relating to its potential risk, and his history of the farm—what other source would you consider to be a reliable source that ought to be used?

Mr. PROPST. Cotton records are available. Good records are available. The concern is primarily feed grain. And feed grain records, even though there have been attempts in the past to turn these records in to the local ACSC office where they can become a part of the record, are not universally available in county offices. Someone that is more familiar with the feed grain and wheat provisions will probably be able to furnish better ideas on that than I could.

Senator HUDDLESTON. Well, I was wondering what other factors might be available from any source that would not be normally considered by any reasonable assessment or evaluation of yields that might be made by the ASCS.

Mr. PROPST. Warehouse receipts and weighing receipts at the local elevator. At some time, the statistical reporting service will take a counting, and the production for that counting, if I understand it correctly, is what has gone through the warehouses in that county. A lot of times, farmers on the fringe area of a county may elect to haul their commodities, because it is actually closer, to another county. This would be credited not to the county it was produced in, but the one that was adjoining. So the records are not necessarily correct.

Senator HUDDLESTON. And I believe you had some concern about the reimbursement rates and how they would be established. You mentioned they ought to be based on regional history. Is it your judgment the options that are provided—that is, where the farmer can determine the percentage of the production that he wants to insure—is that not enough flexibility in your judgment?

Mr. PROPST. Mr. Chairman, we want to be sure it is spelled out, and we will leave that up to your committee to be sure that it is spelled out, so we will know where we are.

Senator HUDDLESTON. Well, the committee will be concerned with making sure that as much is spelled out as possibly can be, so that everybody can understand the program and know precisely what it is that they are buying or what is being offered to them and how it is operating.

I hope we can resolve any questions that anybody might have as we go through the hearing process and the bill goes through the legislative process.

Mr. PROPST. Again, I would say that we believe that it is moving in the right direction.

Senator HUDDLESTON. Thank you very much, Mr. Propst. We appreciate your testimony.

That concludes our hearing this morning. Our next session on this legislation will be on Thursday at 10 a.m., in this room. We stand in recess.

[Whereupon, at 11:25 a.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, August 17, 1978, in room 324, Russell Senate Office Building.]

FEDERAL CROP INSURANCE AND DISASTER ASSISTANCE PROGRAMS

THURSDAY, AUGUST 17, 1978

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston (chairman of the subcommittee), presiding.

Present: Senators Huddleston and Zorinsky.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

I would like to welcome everyone to today's hearing on Federal crop insurance. The administration has submitted a proposal to Congress to establish a greatly expanded Federal crop insurance program under the Commodity Credit Corporation. This program would take the place of the present Federal Crop Insurance Corporation and disaster payments.

The subcommittee is also reviewing a number of other bills to improve the crop insurance and disaster programs.

The witnesses today should feel free to discuss any of the proposals that have been introduced and give us their thoughts on any other proposals that they feel have merit.

We will hear first from O. L. Deardorff, president of the Wheat Growers Mutual Hail Insurance Co., Cimmaron, Kans., representing the crop insurance industry, and our second witness will be Clarence Palmby, vice president of Continental Grain, representing the National Food and Agriculture Committee of the U.S. Chamber of Commerce.

Another witness that was scheduled today was unable to make it, so I will place the statement of the American Bankers Association in the record.*

Gentlemen, I appreciate your giving the subcommittee your time and expertise. We are interested in hearing suggestions for improving crop insurance and disaster programs for farmers.

You may proceed, Mr. Deardorff, and identify, if you will, for the record the gentlemen who are with you.

*See p. 82 for the statement of the American Bankers Association, and p. 78 for additional material supplied by Mr. Deardorff.

STATEMENT OF O. L. DEARDORFF, PRESIDENT, WHEAT GROWERS MUTUAL HAIL INSURANCE CO.; ACCOMPANIED BY: DAN MORRISSEY, INDEPENDENT INSURANCE AGENTS OF AMERICA; DUWARD SUMNER, PROFESSIONAL INSURANCE AGENTS; AND JOHN POPE, NATIONAL CROP INSURANCE ASSOCIATION

Mr. DEARDORFF. Mr. Chairman, I am O. L. Deardorff, president of the Wheat Growers Mutual Hail Insurance Co. of Cimarron, Kans. I appear before you on behalf of the total private crop insurance industry which, under the auspices of the National Crop Insurance Council, of which I am chairman, has in unanimity formulated a position reflecting the concerns of our companies and agents, stock and mutual, large and small, who write crop-hail insurance and other insurance needed by farmers.

The National Crop Insurance Council is a forum of insurance trade associations consisting of the following:

The American Insurance Association, 147 member companies;

The Alliance of American Insurers, 166 companies;

The Crop Insurance Research Bureau, 38 companies;

The National Association of Independent Insurers, 450 companies;

The Independent Insurance Agents of America, representing 150,000 agents;

The Professional Insurance Agents of America, Inc., 32,000 agents;

The National Association of Mutual Insurance Co.'s, 1,107 companies; and

The National Crop Insurance Association, representing 104 companies.

With me today is Dan Morrissey of the Independent Insurance Agents of America; Duward Summer of the Professional Insurance Agents, and John Pope of the National Crop Insurance Association.

Our position today consists of three parts:

(1) Our preferences for a Federal Government role, if any, in crop insurance;

(2) Our objections to S. 3029 and the administration program proposal; and

(3) Some suggested legislative alternatives.

Before proceeding to these in some detail, we wish to be understood on two very important points; the first of which is we share with you a concern for the welfare of farmers. Not only are they our customers and the backbone of the national economy, but also we are particularly attuned to the problems and needs of farmers.

Second, the crop insurance objectives of the Congress and the administration are laudable, at least as we perceive them. We are critical of much, but not all of the features of the proposed legislation. Our concern has mainly to do with how the perceived objectives are to be achieved, and we would hope that as we offer alternatives our criticism will be taken as constructive, rather than negative, and as motivated by concern for the interests of not just our business, but also for those of farmers, consumers, and all of us as taxpayers.

We think a third point needs greater appreciation. The major concern of most farmers is with operating costs and commodity prices. Our agricultural productivity is one of the wonders of the world. The

inclination of farmers to produce and their effective responses in critical periods of need have been dramatically demonstrated, as most of us remember. The incentive for abundant production has been price margin potential, not Government programs in general or crop insurance in particular. Indeed no more than 14 percent of the eligible producers have utilized the Federal crop insurance, in comparison with which upwards of 25 percent annually purchase hail insurance on their growing crops. We therefore note with some uneasiness the language of the preamble of S. 3029, and I quote: "... to insure consumers that producers will be able to continue to produce food and fiber."

As we read the mood of commercial farmers, we would respectfully observe that the achievement of that aim depends upon the cost/price economics of farming with which all farmers must contend every year, much more than upon crop insurance for which only a few feel need and only part of the time.

Now for part A of our position statement.

Point 1. We wish from Congress most of all that it decline all proposals, the implementation of which would preempt or threaten our ongoing free enterprise endeavors in crop-hail insurance. For more than 60 years we have successfully and to the satisfaction of farmers provided this coverage throughout the Nation. We see it as neither right nor necessary for this successful, taxpaying enterprise, to be destroyed or threatened by any Government program.

We view S. 3029 in its present form, coupled with the expressed goals of the administration of at least 68 percent participation, as the nationalization of the crop insurance business. The broad provisions as to coverages, the expansion nationwide, the establishment of a nationwide agency system, the unlimited subsidy of premium and expense and the expressed consideration of compulsion through the farm program benefits leaves little doubt that as a satisfactory substitute for the present free disaster program a nationalized crop insurance program will result and the private crop insurance will be eliminated.

We therefore recommend deletion of hail and fire from any and all Federal crop insurance programs.

Point 2. We are aware of no demonstrated general unmet need or desire of farmers for insurance other than on crop production. We therefore recommend that the Federal programs, if any, be confined to growing crops. We also strongly urge a commonsense approach to multiple peril crop insurance, limiting coverage to realistic levels below the range of normal variation in annual crop yields, with options of coverage priced to include the whole cost of both claims and the cost of administration.

Point 3. As both private and corporate taxpayers, we resist the commitment of tax dollars to overly generous programs which are wrong on principle and unfairly discriminatory in application. The presumption that all farmers need help all the time is unsubstantiated. The free disaster payments feature of the 1973-77 farm bills is a dismal example, the most obvious and objectionable defect of which is the definition of a "disaster" as yield of a single crop less than 60 percent of normal. We are not aware that any other segment of our economy or society routinely enjoys free insurance wholly at the expense of the taxpayers.

We believe there is no justification for the taxpayers to subsidize the cost of crop insurance any more than the cost of farmers' other needs which are legitimate costs of doing business and a deductible item for income-tax purposes.

Point 4. The crop insurance industry has for 8 years been engaged in experimental development of multiple peril crop insurance comparable to that offered by the FCIC. Companies and agents have learned much in this area. But the nature of the risk involved requires catastrophe reinsurance beyond the resources available in private industry. With proper reinsurance provided by Government, private industry could, under acceptable conditions and through its countrywide agency systems, extend the availability of all-risk crop insurance to all who are interested. This could be accomplished without additional Government employees and facilities. We therefore recommend the deletion of the 20 county limitation in the present FCIC act and inclusion of a provision for catastrophe reinsurance to private industry.

Part B. Our principal objections to the administration proposals are, briefly, as follows:

One, we feel there is no demonstrated need or demand for a grand new program. Even the survey of farmers, referencing the study of the crop insurance commissioned by the Federal Crop Insurance Corporation, does not show an interest in the grand new design. The principal concern expressed by those respondents to that survey was for the availability and continuity of crop insurance. We are also dismayed that the Secretary proposes to dissolve FCIC and transfer the insurance responsibility to a noninsurance agency. As professionals, we would caution that administering an insurance program is difficult enough without foregoing insurance expertise.

Two, the administration has grossly understated the cost of its proposed program. An independent group of professional actuaries has analyzed the program proposal, taking the known assumptions and indicated intentions of the USDA, and has developed cost estimates as a minimum of from $1\frac{1}{2}$ to 2 times the Secretary's stated estimate. We enclose a copy of their analysis as part of the statement today, which in two sentences summarizes our estimate that the annual average Federal cost of the act would be between \$812 million and \$1.137 billion, providing rates are proper, compared to the USDA's estimate of \$542 million for the 18 initial crops. Inadequate rates could easily produce an additional \$350 million in annual Federal costs to the above estimate. So the administration's bill authorizes too much discretion for any reason, so much that there is probably no way to estimate the ultimate cost if maximum authorized discretion were exercised.

Three, the proposed program would destroy our hail insurance business, without even a redeeming greater purpose such as the general welfare. Highly subsidized overly generous Federal insurance would obviate the need or desire for crop-hail insurance.

Four, in addition to that almost certain preemption, the bill provides that the Corporation may "offer specific risk protection programs" and hail insurance is not excluded, so the bill hands to the Secretary the latchkey for nationalizing the private crop-hail insurance industry.

Five, there is in the bill at least an implied threat regimentation of farmers. There would be great temptation, pursuant to making the

proposed program work, so to speak, to require participation as a condition for receiving other program benefits.

Six, the administration bill omits provision for reinsurance of private companies or for any role of the private companies. There is a nod to the independent agents, but the 1978 pilot program pertaining to independent agent participation suggests that the Secretary might be out of touch with reality. The proffered incentives for an independent agent to engage in a marketing arrangement are not sufficient to meet overhead costs of doing business. By whatever method of compensation, the laborer is worthy of his hire.

Insurance agents in every community of the crop-growing areas would be affected by the loss of their crop-hail insurance business. Thousands of company employees, adjusters, and fieldmen would be displaced with no consideration in this bill, as was similarly provided in the northeastern railroad consolidation, where Government replaced the salaries of displaced employees until retirement. Agents have rejected all proposals of the administration to market the program through them as being unfair and unrealistic, since ownership of the business would remain with the Government.

Seven, in brief, the administration proposal is a classic example of overkill, scarcely in keeping with the appropriate advice of that rustic sage lately often quoted as "if it ain't broke, don't fix it."

Part C: Legislative alternatives:

Recognizing there is a need for some action soon, we commend to your consideration H.R. 13568, recently introduced by Representative Madigan.

The following are essential elements with which we are concerned and which, in our view, are all that are needed at this time:

One, eliminate hail and fire insurance from the Federal Crop Insurance Corporation coverages, as well as the insurance on harvested crops. These are completely and adequately provided by the private insurance industry, to the satisfaction of farmers.

Two, facilitate the extension of availability of all-risk crop insurance: (a) Remove the 150 annual new county limitation on expansion of FCIC; (b) Provide a realistic reinsurance facility for private companies or pools of companies; and (c) Once and for all, for at least the near future, responsibly and adequately fund the Federal Crop Insurance Corporation.

Three, extend disaster payments for 1 or 2 years, to afford time for emplacement of insurance alternatives. However, the extension ought to be coupled with a revision in the threshold for eligibility and rate of payment, and we would recommend substitution of 30 percent of normal yield at target price, for 60 percent currently at half target price, which gets the same dollar payout for a total crop failure, with inception at more nearly a true disaster level, which will reduce the cost of indemnities to the Government, and the consequent reduced frequency of claims would substantially reduce cost of administration.

There is every reason to require coordination of benefits, especially with other tax-supported programs such as FCIC. For example, hail damage has been quite severe in some areas this season. We have reports of hail insurance paying for a total loss on corn, and for the same loss the farmer will be eligible for disaster payment. It is not clear to us what the FCIC does in such a situation. We doubt that the Con-

gress intends that anyone should profit by way of Government programs, but there will be some farmers in 1978 better off with a hailed-out crop than if they had a bumper yield.

Four, the rate structure for Federal crop insurance should include the full and complete direct and indirect costs of administration, as well as indemnities. This is important for several reasons, two of which especially pertinent to this context are, first, so that the Congress and the farmer realize the true extent of subsidy, and, second, so that if private companies are ever involved in a partnership to extend the availability of all-risk crop insurance, the Federal support, if any, may be equal to customers of either source.

Five, we think the matter of premium subsidy is overdone, but it may be necessary or expedient to achieve an orderly transition from free disaster payments to insurance. However, any such subsidy should be, (a) variable by level of coverage options and concentrated on the lower levels, and (b) phased out after 2 or 3 years. The inclusion of crop insurance premium as a deductible expense for tax purposes should suffice and is consistent with the tax treatment of other businesses.

In conclusion I would like to reiterate three major points which we trust we have made:

One, the administration's costly proposal goes far beyond the demonstrated needs of farmers. We are united in our opposition to it.

Two, the administration proposal threatens the private crop-hail insurance industry. No reason to preempt or to nationalize it is demonstrated as superseding even the administration's professed preference for letting private industry prevail where it can and is performing.

Three, we urge you to enact only such new law as is necessary to avail to all farmers only the means of such desired protection as private industry cannot by itself provide.

This concludes our statement. We thank you and your committee for the opportunity to appear before you and we register with you our willingness to work toward a crop insurance program which at minimum cost to the taxpayers will meet the needs of farmers and consumers.

Senator HUDDLESTON. Thank you very much, Mr. Deardorff.

Mr. Deardorff, Jim Deal, who is Manager of the Federal Crop Insurance Corporation, in his testimony on Tuesday indicated that he felt that the private industry and the proposed crop insurance program could coexist under the new program. You seem to have some question about that. Do you feel that the private crop insurance industry couldn't continue to function under the new proposed program?

Mr. DEARDORFF. Yes, sir, we do feel that we could not. We have been able to coexist with the Federal Crop Insurance as we know it today because of limited coverage by that program. If the new program, as we discussed it today, should become a reality, and even assuming that we could get the 68 percent or better participation needed to make a success, we feel that it would have to be so heavily subsidized that to get this participation that it would be quite an attractive package, and I myself as a farmer would be inclined to take that insurance instead of the kind that we have, and consequently we feel like we could not survive with that.

Senator HUDDLESTON. Do you feel that the 68-percent participation objective is unrealistic?

Mr. DEARDORFF. Based on the past Federal crop insurance participation of roughly 13 to 15 percent in the past, I would think it is unrealistic, unless it was boosted by pretty heavy subsidies.

Senator HUDDLESTON. Of course, eliminating the disaster payments that are now available, holding it in the insurance program, would have a tendency to increase the participation, wouldn't it?

Mr. DEARDORFF. I should think so. I presume you mean taking the funding that is currently going into the disaster payments to subsidize the insurance.

Senator HUDDLESTON. Well, the fact that the only protection that the farmer is going to get would be through the insurance program, rather than relying on disaster payments.

Mr. DEARDORFF. Yes, I am sure they would take a strong look at it and see. I think this happened in the Canadian version of the same thing, where the private crop industry, the Federal crop grew hand in hand through the years until the Federal end of it, the Federal program, because more heavily subsidized and then the private crop-hail industry dropped off in its writings rather severely.

Senator HUDDLESTON. You feel, too, that it is unrealistic to expect that local insurance agents would be enthusiastic about selling Federal crop insurance, I suppose, in competition with the Government agencies that would also be selling it?

Mr. DEARDORFF. Yes, sir, and I would like to refer that question, if I may, to Dan Morrissey of the National Association of Independent Insurers.

Mr. MORRISSEY. Yes, I would say it would be unrealistic because, as we pointed out in our statement, the nonownership of the renewals under the program would be available next year. There have been two counties that this program was to be tested on this year and there was not a single independent agent in either one of those counties in Nebraska or Texas that accepted the contract. There were several things wrong with it, as we pointed out in our statement. There is no provision to own these expirations. It could be canceled at any time. The 10-percent-commission level is not realistic to do business today.

I think the thing that bothers the agents more than anything else is that we sell the product or this program to the farmer and then he has a loss, he goes to the ASC office to get the loss handled and if I sell a \$2,000 premium to a farmer out there to cover his crop, he is going to come to me for payment, but I have nothing to say about that payment and it is turned over to a Government entity to settle, and this is why I don't believe you will reach the 68-percent participation.

Senator HUDDLESTON. In the private insurance industry, what percentage of coverage sold is crop insurance?

Mr. DEARDORFF. Well, many of our companies have the crop-hail lines along with their other lines of fire, casualty, and so forth, the multiple-line companies. Some companies operate as only, as my own company does, only as a crop-hail insurance company.

Senator HUDDLESTON. But other crop insurance is sold by private industry. You sell disaster-type insurance?

Mr. DEARDORFF. I will refer that to John Pope, who is with the multi-line company.

Mr. POPE. There are companies that do sell other types of insurance: Property, casualty, health, and so on and these companies do sell hail

insurance, as well, but I think maybe your question relates back to multiperil crop insurance which presently, at this time, to my knowledge, there is none being sold. A few years back there was.

Senator HUDDLESTON. But it would be virtually impossible to develop any kind of a viable all-risk crop insurance without folding into it hail and fire.

Mr. POPE. I think maybe, to speak to that point, the reason that most people buy FCIC coverage is not for hail, but for the perils of drought, flood, and so on. Certainly the hail, as far as FCIC coverage is concerned, is a small portion of their losses, which may go along with what you are thinking.

Senator HUDDLESTON. How do you account for the big discrepancy in the estimate of the cost of this program between your figures and what the Department has suggested?

Mr. DEARDORFF. We have the private actuarial concern of several of the actuaries who have studied their own program and that is a little beyond the expertise of myself and the rest of the company people. That is kind of a field in itself. To that point, these actuaries have agreed to visit with the people in the actuarial department of the Federal crop insurance program to see where their differences might exist, but yet to this date we do not know.

Senator HUDDLESTON. You say you think the private industry could handle this program if a reinsurance availability was made. How soon could the industry get tooled up to go into this broad all-risk coverage?

Mr. POPE. Well, sir, as has been mentioned, we have experimented with the program in the past and we presently are capable of writing business in, I think, somewhere between 11 to 15 States, which is dormant at this time, so just as a conjecture, I would say, of course, next year or within the year we could be tooled up to do business there, and within probably 2 to 3 years in the other States.

Senator HUDDLESTON. If the private industry were to go that route and the cost to the farmer should stay within what is anticipated by the Federal program, what would the cost to the Government be comparatively with the two approaches? Do you have any idea of that?

Mr. POPE. The cost for reinsurance?

Senator HUDDLESTON. Yes.

Mr. POPE. At this point I would not have a fair estimate on that; no.

Senator HUDDLESTON. Do you think it would be substantially more or substantially less?

Mr. POPE. We would hope that it would be less. That was our thinking in the past.

Senator HUDDLESTON. You make a point that what the administration is proposing goes beyond the need. Do you want to elaborate on that a little more?

We find that we are contacted frequently by growers in various sections of the country who indicate that we are not meeting their needs at the present time. Are they proposing something that you see that just simply doesn't need to be approached?

Mr. DEARDORFF. I think under the present—you are speaking of the present unavailability or continuity of coverages offered by the FCIC, and that is probably due to the fact that the FCIC cannot or does not operate in all parts of this country. I presume the concern comes from

some of the other areas that are not being covered by FCIC because if they were interested in the crop-hail and fire business that our industry provides, we operate in all States and our insurance is available to the farmers and they are using it in all of the States.

Senator HUDDLESTON. You also suggest we ought to more adequately fund the FCIC. Would your plan for a reinsurance program include an active FCIC program or would you propose to move in and take over the entire field?

Mr. DEARDORFF. I think it would be unrealistic to think that we could take over the whole program for some years to come. I mean in all candor, I think that the industry would like to—or certain elements of the industry or segments of the industry—would like to get into the multiperil or multirisk crop insurance, with no intention of putting the Federal Crop Insurance Corporation out of business, but at the same time we do not wish to be put out of business while the Federal Crop Insurance Corporation is being perpetuated in another form. Currently their limits are satisfactory to us and we can coexist.

Senator HUDDLESTON. Gentlemen, thank you very much for your testimony. It will be very helpful to us.

The next witness this morning is Clarence Palmbly.*

Will you fully identify yourself, and the gentlemen who are accompanying you, for the record, and proceed, sir.

STATEMENT OF CLARENCE D. PALMBY, VICE PRESIDENT, PUBLIC AFFAIRS, CONTINENTAL GRAIN CO., REPRESENTING THE U.S. CHAMBER OF COMMERCE; ACCOMPANIED BY: E. RAY FOSSE, ASSOCIATE SECRETARY-MANAGER, CROP-HAIL INSURANCE ACTUARIAL ASSOCIATION, INC., AND E. CLINTON STOKES, DIRECTOR, CHAMBER OF COMMERCE FOOD AND AGRICULTURAL PROGRAMS

Mr. PALMBY. My name, as you have introduced me, is Clarence D. Palmbly, vice president of Continental Grain Co., and a member of the board of directors of the U.S. Chamber of Commerce, where I serve as chairman of the food and agriculture committee. With me today is E. Ray Fosse, assistant secretary and manager of the Crop-Hail Insurance Actuarial Association, Inc., and a member of the national chamber's food and agriculture committee, and E. Clinton Stokes, director of the chamber's food and agricultural programs.

We are here today to express the chamber's opposition to S. 3029, which would establish permanent governmental insurance monopolies.

The national chamber speaks for its membership of 76,000, consisting of individuals, business firms, chambers of commerce and trade associations.

The business of selling insurance is an integral part of private enterprise. Private taxpaying insurance companies and mutual associations have been providing a variety of crop insurance policies for many years directly to farmers and through independent insurance agents. They have the resources, capabilities and distribution/servicing systems in place to meet the insurance needs of America's agricultural producers on an actuarially sound basis. Furthermore, they pro-

*See p. 82 for a news release submitted by the Chamber of Commerce of the United States.

vide this service more effectively and efficiently without subsidy than can the Federal Government.

The Federal Crop Insurance Corporation—FCIC—was established many years ago to experiment with the idea of providing a sound system of all-risk type of crop insurance. It was not intended to compete with private industry, which, at that time, was not prepared to cover all perils under one insurance package.

While the FCIC has developed useful experience and information, its dependence on supplemental financing, in addition to the lower cost services provided under its tax-exempt status, has demonstrated that neither the Government nor private industry can, without assistance from the U.S. Treasury, provide a self-sustaining, all-peril crop insurance program at rates that will attract participation by a high percentage of all crop producers. Such broad coverage implicitly contains a catastrophic loss potential. The estimated 15-percent participation in FCIC suggests there are not many producers who are interested in buying insurance against all risks from natural causes, since some types of perils prevailing in one section of the country may not occur in other sections.

Thus, FCIC has served its original purpose—to develop research and experience on an all-risk crop insurance program. In the meantime, however, Congress has become concerned about providing assistance to producers, who are not adequately protected with insurance, against disastrous losses due to weather or other unforeseen catastrophes. As a result, various Government disaster assistance programs have emerged. The principal ones are offered by the Small Business Administration, the Farmers Home Administration, and, beginning in 1974, the special disaster payment program for producers of selected crops. These programs constitute a form of “free insurance,” are inequitable in their application to individual producers, and are costly to the Government and the taxpayers. In addition, they act as disincentives to farmers to seek regular insurance protection from available private sources.

It is, therefore, appropriate that Congress redesign the entire crop insurance and disaster assistance programs, at least, to eliminate obsolescence, duplication, and unnecessary assistance and to make the benefits equitable to all recipients. The mood of the Nation is not in sympathy with still more encroachment from the Federal Government on private industry. People are telling us that Government should quit legislating private industry out of business. Every effort should be made to retain maximum reliance on private sources of insurance protection and to ascertain the extent to which Government disaster assistance, if any, is needed to complement other Government income protection programs, such as price support loans, target price payments, farmer storage incentives and the various farm credit and conservation programs.

The national chamber supports reasonable efforts to help mitigate disastrous losses to agriculture, as well as to any other sector of the national economy. But to guarantee protection without reasonable investment by the injured parties against such losses, as DPP does, is unwise and an unjust burden on the American taxpayer.

The chamber is opposed to the permanent establishment of governmentally created insurance monopolies. Only when the nature of the

hazards involved or the provisions of the program prescribed by Congress are such that private insurance companies are unable to provide the coverage on an actuarially sound basis should governmental assistance be considered. Even in such instances, the services and facilities of private insurers should be used to the maximum. When Government limits the risk of loss, it also limits the opportunity for profit under our competitive enterprise system. In the case of crop insurance, Government intervention also destroys a highly competitive and efficient industry.

The administration's proposed Farm Production Protection Act of 1978—FPPA, S. 3029—would drive the stake of Federal intervention and control inextricably into the heart of private industry.

This bill would provide subsidized crop insurance to producers who do not need assistance. It would extend insurance coverage to livestock and poultry despite the absence of a demonstrated desire for such coverage by the producers. It would transfer the FCIC program to the Commodity Credit Corporation—CCC—a noninsurance agency. It undoubtedly would cost substantially more than the \$542 million per year by 1982 projected by the administration. According to an analysis done by an independent group of professional actuaries, the cost would be at least 50 to 100 percent greater.

It would not authorize reinsurance of private insurance companies so that their expertise could be utilized in extending the subsidized benefits to the producers. It would deny producers the freedom to select the risks against which they choose to insure. It would, in effect, destroy the long established private hail insurance business.

In the event that Congress is determined to provide subsidized disaster insurance protection to producers, it is appropriate to consider the merits of two alternative approaches:

(a) Consolidate all Federal disaster assistance programs into one comprehensive all-risk crop insurance program with authority for reinsurance to permit marketing of the program through the private insurance industry; or

(b) Limit the Government's insurance program to strictly subsidized disaster assistance to farmers suffering catastrophic losses from perils other than those traditionally carried by private insurance companies.

This latter approach has the advantage of minimizing the subsidy costs to taxpayers and the degree of Government competition with the private insurance industry without jeopardizing the intended assistance to needy producers.

If the administration's FPPA proposal is to become the legislative vehicle for updating the Federal crop insurance/disaster payments program, the national chamber recommends the proposal be amended by:

- One, deleting the coverage for hail, fire, and lightning;
- Two, deleting all noncrop coverages, meaning livestock and poultry;
- Three, extending Federal Government reinsurance for private insurance companies without county limitations;
- Four, authorizing private insurance companies and private insurance agents to market the insurance;
- Five, retaining administration of the program by FCIC, rather than CCC; and

Six, funding the program by direct appropriations instead of by the back-door approach.

To summarize, Government disaster assistance should not serve as disincentives for producers to voluntarily seek reasonable levels of protection through established commercial business. Accordingly, Federal programs should include some form of sunset provisions to phase out the Government assistance as producers prepare to finance their own insurance against production losses on a continuing basis.

The chamber commends the efforts of this subcommittee to reappraise the various programs to provide assistance to producers who are frequently exposed to crop losses due to hazards beyond their control.

Mr. Chairman, my colleagues and I will be pleased to attempt to answer any questions you have.

Senator HUDDLESTON. Let me say I think that the attitude of this committee would be that we would not want to carelessly or lightly intrude on private industry when private industry is adequately meeting a demonstrated need. I think it is only in the case when industry leaders are unwilling or unable to present a viable program that we become concerned as to whether or not we ought to extend the Government's activity in a particular field. I think that is the major determination that we want to make as we consider the various proposals that are before us, and I believe that we will be guided by that principle to the fullest extent possible.

I was curious why you suggest that we ought to eliminate livestock and poultry from the insurance program. Do you have any specific reason for that?

Mr. PALMBY. The greatest specific reason is the fact that there has not been a demonstrated demand for that coverage in our opinion, and, of course, there are many well-meaning people that can disagree with what I just said, but, further, livestock and poultry, from our standpoint, are now well served for the actuarially predictable losses that they might incur.

Maybe my colleagues have something to add to that.

Mr. STOKES. It is basically the fact, I believe, that the private insurance industry is serving the needs of the livestock and poultry producers, at least as far as the actuaries can determine.

Senator HUDDLESTON. You also object to the proposal of transferring the operation of the program from the FCIC to the CCC.

Mr. PALMBY. I think the previous witness did a good job in answering that question. My observation through the years is that when the adjustment function is, as in this case, solely in the hands of the Commodity Credit Corporation, or ASCS, it would become more nearly a true Government assistance program in addition to being a nationalized function. ASCS, with its many fine employees, is still looked upon as a price support agency. I feel, as always, that taking this route would effect more price support, price protection programs, and would certainly be a giant step away from the competitive private insurance sector as we now see it.

Senator HUDDLESTON. Is that observation confirmed by your previous service in the Agriculture Department?

Mr. PALMBY. That is what I was drawing on, in addition to the experiences in my county and home State of Minnesota. These are

my observations and, again I say, many people may disagree with them.

Senator HUDDLESTON. Senator Zorinsky, do you have any questions of these witnesses?

Senator ZORINSKY. I have no questions.

Senator HUDDLESTON. Gentleman, we appreciate your appearance and we will certainly give consideration to your comments and your views. Thank you very much.

That concludes our hearing for this morning, we will stand in adjournment, subject to call of the Chair.

[Whereupon, at 10:52 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF JAMES D. DEAL, MANAGER, FEDERAL CROP INSURANCE CORPORATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the committee. It gives me great pleasure to give testimony in favor of what I would consider landmark legislation. This legislation could be one of the most important legislative initiatives to benefit farmers since the creation of the Department of Agriculture.

I must commend you, Mr. Chairman and members of this committee, for your foresight in recognizing the needs of our American farmer and of all agriculture. As all of you are aware, this is not a new subject for the Secretary. When he was Chairman of the House Subcommittee for Conservation and Credit, he was committed to an improved Federal Crop Insurance program. So it is of no surprise that many of the goals and objectives of his earlier days on that committee have carried over into the new Administration.

As you know, I was appointed Manager of the Federal Crop Insurance Corporation in February of 1977 after some 20 years of working with the program. So I am not a newcomer to the business of crop insurance. And, I can tell you that my recent experience in working with Congress on a program that can be so meaningful to our farmers has been most rewarding and exciting.

At this time I would like to have the record show the name of another individual who has worked on this project for a good many years. His name is R. C. Zeller of Kansas City, Missouri. Many of the ideas, objectives, and means to attain these objectives are areas in which he had vast knowledge and had worked out in great detail. I am sorry to report that while working on these details, Mr. Zeller suffered a severe heart attack and died June 13, 1978. His desire to do something meaningful for the American farmer can well be felt throughout my entire presentation. So, with your permission, I would like to dedicate my presentation to him.

Having farmed most of my life in the Midwest, I too have a firsthand knowledge of the problems faced in producing a crop. I have had my own crops wiped out and wondered how I was going to continue to meet my financial obligations.

Our farming industry has an efficiency record unparalleled in history and has made far more advances in agricultural technology than any country in the world. We should all be proud of the fact that less than 4 percent of our population can feed the other 96 percent and a large number of people abroad through our export programs. But, I can assure you that the best equipment and farming techniques in the world will not guarantee that a farmer can produce a crop each year. He is totally dependent upon the forces of nature.

Agricultural income is more variable than any other national income category. In fact, it is six times as variable as nonfarm proprietors' income; it only takes a 5 percent change in the aggregate quantity of production to cause a 25 percent change in net farm income.

I am convinced that we must direct our legislative efforts toward making it financially possible and economically worthwhile to continue producing farm products in this country. The requirements of increased farm investments, the problems of obtaining sufficient credit, economic conditions, inflation, adverse weather, and other natural hazards and risks, as well as unstable market prices, all are threatening to take more and more of our farmers off the farm and out of the sphere of agricultural production. It is especially difficult at a time when we are having problems with overproduction to reflect upon the fact that each year about one out of every 12 planted acres in this country never reaches harvest because the crops are destroyed by natural or uncontrolled hazards. It is in this area that we believe a strong program must be implemented to provide long-term assistance for our farmers as well as to complement provisions of the new Farm Bill.

The Administration Bill, which we are supporting here today, offers a form of preventive medicine to provide greater protection to the farmer for each dollar of federal outlay. This legislation helps relieve the social stigma of give-away programs in the past which all too often have delivered too little and too late to be of much economic value. Under the proposed legislation, the farmer pays his proportionate share. It is an approach big enough to encompass all farmers in all counties, yet small enough to give consideration to individual conditions, cropping practices and needs.

We believe this new legislation will remove most of the obstacles and answer most of the complaints that have been aired over the years under the old Federal Crop Insurance Act and disaster programs of the Department.

With your permission, I would like to use some visual aids which I think will lend themselves to a better understanding of our program.*

Chart Number 1.—As this first chart shows, we basically have seven major objectives. Some of these are far reaching in scope, and some are merely administrative in nature.

Item 1.—All-risk, all-county, all-producers. When we say all-risk, we are talking about any loss of production due to natural causes and certain uncontrollable risks. The all-county and all-producer pretty well speaks for itself. Most of our current programs including Federal Crop Insurance are limited in scope as to the crops involved and the number of producers that are eligible to participate. Under the proposed legislation, it is the Department's intention to make available protection coverage on all farm products in all areas of the country and to all producers as actuarial data can be developed for each farm product. It is the Department's feeling that this will overcome some of the major obstacles encountered in the present programs.

Item 2.—Established actuarial base. In order to provide a fair and equitable program to all producers of farm products, we feel each product covered must be established from an actuarial base. This, of course, brings up the question how much coverage should we offer to the individual producer as well as how much premium should be charged. We foresee that coverages offered under this new program will be related to cost of production and translated into the average yields for a farm. These base yields would be determined for a given period and the amount of premium charged would relate to the actual risk involved in carrying the amount of coverage that we would offer on each individual farm.

Item 3.—Individual producer coverage. It is my understanding that members of the committee have received a GAO report which supports the concept of individual producer coverages. In Item 2 we explained how to establish an actuarial base. Once this actuarial base is established the coverage will be broken down on an individual producer basis rather than simply for a large geographic area. We feel this approach will be more meaningful to each producer and, again, will overcome some of the objections to previous programs of this type.

Item 4.—USDA county delivery. In this objective we are simply proposing that our program would be delivered through the already established county USDA office system and would utilize approved private insurance agents to assist in marketing. We feel it is just good, prudent, economic sense to use a system that is already in place. In addition, the use of this system is compatible with the policy and direction of the Department in relation to the one-stop service center concept for the American farmer. This means the American farmer can go to one specific location in his county and receive all the information necessary for all agricultural programs.

Item 5.—County committee assist in establishing individual producer coverages. This relates back to our explanation in Item 3. We feel the use of a county committee system is by far our best approach to accomplish the individual producer coverage goal. In this instance we would be utilizing farm committees who know the individual farms in their area far better than any one else. We feel a more equitable distribution of coverages would be accomplished in this manner. We presently have a 20-county pilot program under way in which we are developing a workable system with the ASCS county committees. This may be a first in the Department where we develop a system of delivery by pre-planning, which we feel will permit us to start up timely and effectively to implement a nationwide program.

Item 6.—Coverage for the major cost of production. We think that most of this committee would agree that the current programs, Federal Crop Insurance

*See pp. 3-28 for the above-referred to charts.

and other related programs, have been very inadequate in meeting the needs of the farmer. Previous testimony before this committee has already dramatically pointed out that present programs are not far-reaching enough in scope to adequately protect the major costs of production of the farmer in the event he loses his crop. It is our conclusion that whatever type of program we establish must address itself to the major cost of production. This concept is accepted throughout rural America where agricultural councils and farm organizations as well as credit establishments have been making comments to us these past few weeks in dramatically pointing out the need for a protection program that relates to production losses and costs to produce.

Item 7.—Cost affordable. The cost of any new program has to be affordable in three specific areas in order to be an acceptable substitute for the current hodge podge of disaster programs. First of all, the program must be affordable to the farmer if he is going to participate to the extent necessary to make the program successful. The program costs have to be affordable to Government and, of course, the program itself has to lend itself to the benefit of the consumer.

Chart No. 2.—We have prepared a number of charts to clarify the need for and purpose of this legislation. First of all, what does the bill encompass? It relates to farm production expenses. As you can see by this chart, the cost of producing farm products was about \$82 billion in 1976 and is estimated to be about \$84 billion in 1977.

Chart No. 3.—Now, when we try to break down cost of production, as you can see by this chart, we can relate about \$36 billion of this \$84 billion to crop production expense. Another \$36 billion can be related directly to livestock production expenses. And that leaves around \$12 billion that is actually unidentifiable as to whether it is chargeable directly to crop or to livestock expenses.

Chart No. 4.—So let's take a look at just crop production expenditures, or the identifiable amount of \$36 billion as shown on this chart. As you can see here, of the \$36 billion, \$24 billion is directly attributed to the six disaster crops, and about \$4 billion more is related to other crops as presently insured by Federal Crop Insurance. This leaves about \$8 billion of other crops for which we have no program established.

Chart No. 5.—This chart merely illustrates the cost of production of the six disaster crops. When we look at the total disaster crops of \$24 billion, we can relate \$12 billion to corn; \$6 billion to wheat; \$2.8 billion to cotton; \$1.5 billion to grain sorghum; \$790 million to barley; and \$770 million to rice.

Chart No. 6.—This chart deals with the costs of production broken into three categories. Category A is variable cost such as cash output. Category B includes machinery and overhead, and Category C represents a portion of land and management cost. As you can see, the variable costs run about \$16.5 billion. When we add to it over \$8 billion in machinery and overhead, it raises the cost for production for these items to \$24.8 billion. And when we apply land and management cost, and this can be figured many different ways so we are merely contributing to a portion of this, we add about another \$8 billion. This brings the cost of production back to \$33 billion which represents 90 percent of our identifiable production costs. We feel the farmer is going to have to share in part of the risk. Utilizing this chart further for a moment, this illustrates how we would see this actual program being made available to the farmer. We can anticipate setting up the program in 3 categories for three options in which the farmer could participate.

The first option would be Plan A, covering the variable cost or cash output which actually represents about 50 percent of his production. Plan B would be a plan where we would cover the variable cost of production plus machinery and overhead, as demonstrated here. This would represent about 70 percent of his total production. In our third option, or Plan C, we would cover his variable cost plus machinery and overhead plus consideration for a portion of land and management cost. And this would represent about 90 percent of his total production. It is our present idea to permit the farmer to select which of these three options he would prefer to participate in as it applies to his own farming operation. Under the USDA proposal, we use a program participation of \$395 million in Government outlays, of which approximately \$358.5 million of this is applied to Plan A relating to the variable cost level of coverage and with the balance applied to the additional coverage of Plan B, machinery and overhead, and with no portion of the Government contribution applied to the additional coverage of Plan C. To apply a different amount of government participation in the premium cost we would simply adjust the share of the true risk premium. In

addition the government will participate in administrative costs in the amount of \$147 million making the total government share \$542 million.

We feel strongly that the amount of participation we can expect in this program will be related directly to the amount of participation that the Government is willing to consider and the elimination of other disaster programs. The present FCIC program and the proposed USDA program under this legislation, both have subsidized administrative costs. The present FCIC program with no subsidy of premiums has a farmer participation rate of about 14 percent as reflected in its program experience from 1948 through 1977. Canada, which has vast experience with crop insurance, subsidizes 50 percent of the premium and enjoys a participation rate of nearly 80 percent. The proposed USDA program, with about 90 percent of total subsidy applied to Plan A, is expected to have a participation rate of about 68 percent of the acreage. We believe the experience in both the FCIC and Canadian programs provides a good basis for this projection.

Chart No. 7.—This chart has been developed from Actuarial Historical Data based on a neutral rating of premium and coverage. How would this translate into cost to the average farmer? In all three of the options that portion which is considered variable cost would cost the average farmer about \$2.75 for every \$100 of protection. Under Plan B for the additional coverage for machinery and overhead, it would cost the average farmer approximately \$10.18 for every \$100 of protection. For Plan C, the additional land and management would cost the average farmer \$23.93 per \$100 of protection. So an average producer who participates under Plan C would pay \$2.75 for his A coverage, \$10.18 for his B coverage, and \$23.93 for his C coverage, which averages out to an overall cost of \$9.58 a \$100 for the protection if he signs up for Plan C.

Remembering that this chart is based upon costs per \$100 of protection, we can see that the government share at the 50 percent level of coverage or Plan A is \$2.95 per \$100. As farmer participation increases, the government's proportionate share decreases so at the 70 percent level or Plan B, the government's share is \$2.57 per \$100 of coverage, and at the 90 percent level or under Plan C it is \$1.82 per \$100 of coverage.

If we consider just the true risk involved in rating for losses—we can see these averages are \$5.70 for Level A coverage, \$7.50 for Level B coverage, and \$11.40 for the Level C coverage.

Let me further translate these costs on the average farmer into protection and costs on the individual crops. At the A program level, which covers variable or out-of-pocket costs, an average corn farmer in a higher risk area would have a coverage of about 21.5 bushels or \$45 per acre. It would cost him a premium of \$2.90 per acre or \$6.40 per \$100 of protection. An average corn farmer in the average risk area could expect a coverage of 43 bushels or \$90 per acre at a premium cost of \$2.50 per acre or \$2.80 per \$100 of protection. An average corn farmer in the lower risk area could expect a coverage of 64 bushels, or \$134.50 per acre at a cost of \$2.55 an acre or \$1.90 per \$100 of protection.

At the B program level, which covers the out-of-pocket as well as machinery and overhead, an average corn farmer at the higher risk level could expect 30 bushels or \$63 an acre coverage for a premium of \$7.10 per acre or \$11.30 per \$100 of protection. An average corn farmer in an average risk area could expect 60 bushels or \$126 an acre at a premium cost of \$6.15 an acre or \$4.90 per \$100 of protection. An average corn farmer in the lower risk area could expect a coverage of 90 bushels or \$189 an acre for a premium of \$6.25 per acre or \$3.30 per \$100 of protection.

At the C or highest program level, which covers A and B plus some land and management costs, an average corn farmer at the higher risk level could expect 38.5 bushels or \$81 an acre for a premium of \$18.10 an acre or \$22.30 per \$100 of protection. An average corn farmer in the average risk area could expect 77 bushels or \$162 an acre for a premium of \$15.70 per acre or \$9.70 per \$100 of protection. And an average corn farmer in the lower risk area could expect a coverage of 115 bushels or \$242 an acre at a premium cost of \$16.00 per acre or \$6.60 per \$100 of protection. Rather than trace each individual crop in a similar manner, I would like to submit for the record a tabulation of wheat, corn, and cotton at each of these three levels for further consideration by the committee if he Chairman has no objection.

Chart No. 8.—This chart relates to the 18 major crops that will be included in the initial stage of the program. As you can see, the variable costs run about \$14.5 billion and when we add machinery and overhead, the cost jumps to about \$20 billion, and when we add a portion of the land and management costs, we have an overall production cost of about \$26 billion.

Chart No. 9.—This chart lists the 18 major crops we expect to cover nationwide in the initial year of the program. The six disaster crops are listed on the left and 12 other crops on the right side of the chart. All 18 are crops presently insured under the Federal Crop Insurance program. We feel there is sufficient actuarial experience with which to expand nationwide almost immediately on these crops. Other crops will be started on an experimental basis and rapidly developed into nationwide coverage as actuarial experience is accrued. These 18 crops are grown on 89 percent of all cropland acreage in the nation.

Chart No. 10.—This chart and the next chart are comparisons of present disaster-type programs with the new proposed plan. This chart is a cost comparison. The ASCS low-yield disaster program is costing \$450 million a year on the average, the Small Business Administration and Farmer's Home Administration emergency loan programs are costing about \$75 million annually and the Federal Crop Insurance program costs about \$30 million a year for a total of \$555 million. The average annual cost of the proposed Farm Production program is estimated to be \$542 million.

Chart No. 11.—Contrasted with the previous chart which showed the proposed FPP program to cost an average of \$13 million a year less than the present disaster-type programs, this chart shows that the present FCIC and ASCS disaster programs now offer the farmer about \$6.4 billion in protection compared to the proposed program which is projected to show \$14.9 billion in protection to farmers, based upon estimated participation, by 1982. This is more than double the effective protection for each dollar of federal payout. It should be added here that recent changes in the Farm Bill legislation concerning the low-yield disaster program make it nearly impossible to compare this program with any other programs such as FCIC. This is because the farmer now has an option to select one of two plans and it is not possible at this time to estimate which option will be most favored. Our projections for the low-yield disaster program are based upon 1976.

As you can see our projections for the new FPP program show a total possible crop exposure of about \$33 billion. However, we anticipate that about \$14.9 billion of this exposure will be utilized in the first years of the program based upon 68 percent participation by farmers. Depending upon which year the new program is enacted, but within a two-to-three-year period, we anticipate hitting this protection level.

Chart No. 12.—Using corn as an example, this is a comparison of the present program versus projected protection under the new proposed legislation. As you can see in this chart, Federal Crop Insurance has \$562 million protected on corn for 1976 while the ASCS disaster program amounted to about \$2 billion in protection. Under the new plan, we project a \$10.8 billion maximum protection level, again, at about 90 percent of production cost.

Chart No. 13.—This is the same comparison for wheat showing the Federal Crop program at \$432 million and a little over \$1 billion for ASCS and under the new program we would be addressing ourselves to a potential of about \$5.5 billion in protection for wheat growers.

Chart No. 14.—One other example is cotton. On cotton we are presently protecting about \$87 million under the FCIC program while ASCS offers about \$546 million in protection. Under the proposed legislation the potential would be increased to about \$2.5 billion.

Chart No. 15.—This chart represents a projection of the Federal Crop Insurance program through 1989 under the present legislation. As you can see, in 1980 we are estimating our protection level to be \$2.6 billion. This would increase to \$3.2 billion by 1982, \$3.8 billion by 1984, and \$5.3 billion by 1989. When we consider that \$84 billion is the total exposure of farmers' cost of production, it is readily observable that the projected protection under the existing legislation would not be adequate to cover the needs of farmers.

You will note our growth from \$2.6 million to only \$5.3 million protection by 1988. The reason for this slow growth is because under present legislation we must charge sufficient amounts of premium to cover all losses plus build a reasonable reserve. This simply makes it unaffordable in high risk areas, so in effect we have limited the program to average or low risk areas, making the program available only to a portion of agriculture. However, the study done by the Actuarial Research Corporation, points out with proper funding, the present program could penetrate 30-40% of the potential market. This would be \$10-13 billion of protection. Subsidizing the new program and making insurance available to all producers in all counties at affordable cost would solve the problem of participation.

Chart No. 16.—In contrast, this chart relates to the proposed legislation and the Farm Production Protection Plan. Should the legislation be enacted in time, we can see in 1980 about \$9.9 billion in protection being available to farmers. By 1982 this should increase to a projected \$14.9 billion, and by 1984, \$19.2 billion. It should be pointed out our projections of program cost for coverage beyond the \$33 billion potentially, with a projected participation of \$14.9 billion of protection, would be in addition to the \$542 million program cost (estimated for the FPP program which will) replace the current Disaster Program and present Federal Crop Insurance program. We estimate that by 1989 this protection could increase to \$39.2 billion, with a potential exposure of \$75.6 billion which covers all farm products providing the additional funding is made available. We are not in a position at this time to make reliable estimates of costs for this additional protection which would include livestock production; however, a rough estimate suggests that a livestock program could absorb some \$200 to \$300 million program costs when operational.

Chart No. 17.—What we have said up to this point is all well and good, but now we get down to the question of how does the farmer get his money. This chart is a sample determination of how we would pay a loss to a farmer under the proposed legislation. First of all, we plan on establishing yield for the producer over a base period and, for the sake of this example, we have used a producer with base yield of 100 bushels on corn. We would relate the farm production guarantee in bushels at a price per bushel or unit that would reflect, but not exceed 90 percent of this producer's cost of production.

Briefly, the price per bushel or unit that I just mentioned would be established at multi-levels in addition to the coverage levels. The farmer would have the option under each level of the insurance program at valuing his production loss at varying prices per bushel or unit—in most cases three such price elections. The highest price election under each plan multiplied by the guarantee for the plan would represent the maximum protection goal of each plan, but would not exceed the 50 percent-70 percent-90 percent cost of production limits respectively. Less price elections would be available for the individual who wants to self-insure a portion of his loss.

In this example, we have used 70 bushels, or Plan B representing 70 percent of the farmers' base yield which approximates a major share of his costs of production. Below, you have two examples which would explain how the program would work for the farmer. In example 1, if the producer had a 40-bushel yield, this would mean he would have a loss of 30-bushels, which is simply the 40 bushels subtracted from his 70-bushel guarantee. Depending upon the price he selects to be paid for his loss, and in this example we have used \$2.10 a bushel price on corn, the producer's loss would be merely the number of bushels short of his guarantee or 30 bushels times the price per bushel selected, which equals \$63 per acre loss. Example 2 merely shows his yield for the year at 20 bushels so that he has a 50-bushel loss. This 50 bushels times the \$2.10 per bushel gives a loss of \$105 per acre.

Chart No. 18.—This is a similar chart for a wheat producer. Given a guarantee of 20 bushels you can see in example 1 he has lost 14 bushels multiplied by \$3 a bushel for a loss of \$42 an acre. In example 2, with an 8-bushel loss this works out to a loss of \$24 an acre.

Chart No. 19.—This chart shows a cotton producer with a guarantee of 420 pounds to the acre. In example 1 he produced 100 pounds and lost 320 pounds below the guarantee for a loss of \$166.40 an acre. In example 2 he only lost 170 pounds below the guarantee for a loss of \$88.40 an acre using a price election of 52 cents per pound.

Chart No. 20.—Nothing of the scope envisioned by this legislation has before been available to the American farmer. Our most predominate disaster program, the ASCS low-yield payment program, is estimated on a nationwide, six-crop basis to protect about 30 percent of a farmer's production costs as shown on this chart. As you can see, the minimum goal for our new program is to protect 50 percent of this production cost and to make this program available not just on six major crops, but on 18 major crops in the first year, and to all producers in all counties.

Besides crop programs, this legislation has the versatility to provide protection on such limited risk programs as preventive planting, honeybee indemnity, wild-life depredation, aquaculture, pest-specific risk, and others. It should be pointed out that in the limited risk plans, we do not intend to duplicate any programs that industry already is adequately covering. It could also encompass diversified farm

products in such areas as livestock and poultry, tame hay and pasture, fruits and nuts, vegetables, milk production, nursery stocks, forests and tree farms.

This legislation would permit the channeling of immediate disaster aid in the form of indemnity payments and, as you can see by the chart, in sufficient quantity to areas which have sustained production losses. My experience in farming and Federal Crop Insurance has taught me that the most serious economic impact resulting from natural conditions which destroy crops comes mostly from the repeated occurrence of these conditions or natural conditions coupled with unfavorable economic prices. Besides the replacement of the current mix of Federal Disaster programs, the distribution of indemnities under this legislation will have important impact upon maintaining the income level of farm families and their ability to produce our supply of food and fiber.

So, I would conclude by saying that we have a golden opportunity to do something not only good for the American farmer, but of lasting benefit to the American people. I hope that my presentation has been helpful to this committee in making a determination. I would be happy to answer any questions you may have as to the Administration's position or how we see this program operating within the Department.

[The following material was furnished by Mr. Deal and referred to on p. 30 of his oral testimony.]

JANUARY 7, 1946.

To: Mr. James O. Cobb, Director, Federal Crop Insurance Corporation.

From: Mr. W. S. Vanderbilt.

Subject: Report and Recommendations for the consideration of the Federal Crop Insurance Corporation.

In our preliminary report mention was made of how much we were impressed with the sincerity, ability and effort that had been displayed by the staff in endeavoring to place Crop Insurance on a sound basis. The directors and staff have been confronted with a problem, the magnitude and complexity of which have never heretofore existed. Some of these difficulties previously mentioned were:

- A. Complete lack of precedent and experience which could be used as a sound guide.
- B. Inaccuracy of data with which the Corporation has been supplied.
- C. Uncertainty of the participation of farmers in the program.
- D. The necessary attempt to underwrite the business on paper from averages.
- E. The short period of actual experience available.
- F. The liquidation of the program in 1943 necessitating interruption in continuity of experience and plans.

It is difficult to evaluate all or even some of the factors which apparently have been most influential in creating the adverse experience to date. Several have already been weighed by the staff and some corrective measures taken, which certainly would have improved the experience had they been in effect since the beginning. Among these corrective measures are:

- A. Loss reduction clause now in the contract.
- B. Study of uninsurable areas.
- C. Modest increase in rates over those named in the earlier days of crop insurance.
- D. Earlier closing dates for applications, which should lessen opportunity for adverse selection.

These and other corrective measures initiated by the staff are commendable and, so far as they go, constructive.

There are other important factors than the establishment of insured production and premiums from available statistics which figure in the actual underwriting results. The calculations of average yields on a county and individual farm basis and the considerations given to all known variables have been treated scientifically. However, the magnitude of the undertaking, the non-existence of dependable yield figures for individual farms, inadequacy and inexperience of field supervision and sales approach and the personal equation of the farmer himself, which are difficult to evaluate, are additional problems and should be further appraised.

From our own experience and from a study made of the record, procedures and the mechanics of making Crop Insurance available to farmers by the FCIC, it is

our conviction that the writing of All-Risk Crop Insurance under existing plans and facilities may well continue to produce losses in excess of premiums collected, except possibly in extremely favorable years.

RECOMMENDATIONS

ADMINISTRATION OF THE PROGRAM

The farmer's contact with Crop Insurance apparently has been largely through the local AAA committees. These committees are primarily interested in subsidy payments. Many farmers apparently have not sensed the difference between a subsidy and All-Risk Crop Insurance, which they are expected to pay for as a self-sustaining service. Many have dropped insurance because they did not collect losses, and the value of protection has not in all cases been established. It is feared that too many have bought Crop Insurance as a speculation in years of uncertain prospects.

The AAA committees no longer record data that are helpful to the FCIC in the making of premiums or in the determination of individual yield records. In the past the major expense of operation consisted of payments to AAA for listing all farms, giving acreage and yield data (for the crop year 1942, the total expenses were \$6,445,000.00 and payments to AAA were \$4,884,000.00). In that year, however, as regards cotton, only about 10 percent of the cotton farms were insured, although every farm was listed and rated at great expense.

In view of the apparent desirability to make more certain that Crop Insurance is not considered or is, in fact, a subsidy rather than insurance, a desirable approach to the Corporation's objective would seem to lie in the establishment of an independent field force (probably seasonal employees) of its own, operating under state or regional directors down through the county, each one of whom would be responsible for his individual activities and results. Such an organization could more properly merchandise the sale and underwriting of the business.

It is appreciated that such a field force could not be assembled or trained in time to dispense with the AAA services on a given date. There are certain areas in which the AAA committees have admittedly lacked interest and have not promoted Crop Insurance as evidenced by their own failure to participate in the program, and it is possible that in such areas, field men should be placed first, and as rapidly as feasible a direct FCIC field service should be extended to all areas and, in the meantime, concise explanations be given to the AAA groups as are necessary to handle the program of the general policy of the FCIC and what it expects to accomplish.

Changes in the functioning of the AAA in the future may be a possibility but, in any event, the setting up of a separate organization for FCIC would seem to be desirable, and plans commenced now would make the transition easier.

The functions to be performed by county or area field men would include approving of applications, crop inspections, loss adjustments, release of acreage, gathering of yield data, educational work among farmers, banks, Production Credit Associations, farm supply dealers and other credit agencies.

Sufficient responsibility should be placed on the field representative to quote premiums and insured production from tables prepared by the Corporation.

This suggestion would not contemplate any severing of relation with local AAA groups, and the field representative of FCIC could coordinate his activities with and obtain much benefit from AAA committees. However, the responsibility for successful operation would rest squarely on the FCIC representatives or employees.

In the matter of education, promotion and sales, the FCIC representative would be instructed to acquaint all credit agencies with the stabilizing influence of Crop Insurance on the agricultural welfare of the community. There is every reason to believe that Crop Insurance properly explained and properly administered should become more generally acceptable and be advocated by those extending crop production credit to farmers. Credit groups are in touch with farmers and have much helpful detailed information on yields, and could be used to properly explain the program.

It has already been suggested that the personal equation, the moral hazard and local hazards peculiar to individual farms, are not reflected in Bureau of Crop Estimate figures from which county average yields are determined. Neither are these apparent in county listings of individual farm yields in AAA offices. Continuous study on the part of local persons whose duty it is to detect and report infractions, defects, dishonesties and unadmitted abandonment, may well

be a very important factor in determining if the Corporation will be able to underwrite its business and cope with the serious problem of adverse selection. There have admittedly been serious losses from weather and disease hazards, although on the whole the country has experienced good growing conditions in recent years, but if the truth were known, a high per cent of the loss has undoubtedly resulted from the system of remote lack of control produced by local administration through AAA.

The local representative should remain active during the growing season, making prompt inspections or reported cases of damage. In the case of general disaster in the community, early adjustments under existing regulations are very advantageous to the FCIC. However, if there is not a direct fixed responsibility on a person having knowledge of local conditions, delay will result in many late appraisals that unquestionably will increase loss payments beyond reason.

It should further be the responsibility of a local representative to supply data on floods of streams and rivers and identify farms from contour maps so that special hazards may be recorded from farm to farm rather than on a county-wide basis. It should also be this individual's responsibility to spot and indicate known sub-marginal areas, farms and uninsurable risks.

Obtaining accurate yield data is becoming a more serious problem because of cessation of this activity on the part of AAA and consideration might be given to making arrangements with sales agencies, thrashers, elevators, ginners, etc. to obtain records, which procedure we understand was customary on the part of AAA and which otherwise might not now be available. Here again, only with local responsibility will this data be assembled for loss adjustment and rate purposes.

The FCIC staff has already some experience on how many farms may be supervised by one man, and assuming that a great deal of the AAA costs can be eliminated, even if one man were assigned only a limited number of farms, it might be that the expense could be materially reduced. It would certainly appear that to meet the limit of expense ratio eventually set up, considerable savings in expense will have to be found, which in turn will not interfere with the efficient operation of the program. Expenses at present are far in excess of 25% of the premiums.

There is no other recommendation which seems more likely to meet the complex problems of Crop Insurance than the establishment of a field force of local trained men in underwriting problems. If any basic error has been made, it is that Crop Insurance can be underwritten on paper from averages. Average production just does not exist in reality.

In addition, inasmuch as insurance must be sold and not bought, it would seem most desirable to select as head of the Production Department an individual with insurance training and experience, who would have over-all supervision of such a department. He should be assisted by able trained assistants.

SIMPLIFY SALES PROCEDURE

Further study might well be given to simplifying the sale of the policy to farmers and, as soon as possible, provide in the application the insurance conditions of his contract. Consideration should also be given to selling of the business only through representatives who have been schooled in the fundamentals of the program and, wherever possible, in insurance.

ADEQUATE RATES

Although the present theoretical rates have a very modest loading and in some instances and for certain crops have been slightly increased, and although the changes now proposed will help, it is problematical whether they will ever meet the actual loss cost, and consideration should be given to a further increase in the present rates, particularly to apply on less than average risks, in order to better provide for adverse selection, unforeseen conditions, catastrophies, and necessary reserve. In connection with catastrophies, losses from rain, frost, freeze, drought, etc. have caused total destruction over large areas during the short term of the Corporation's history, and it is not to be expected that such shocks can be absorbed in a few years. However, it is perfectly possible that catastrophe losses over much wider areas may sooner or later occur, and that the present practice of projecting five to seven year yields over a seventeen to twenty-five year period may result in too slow a process of recovering disastrous losses in so-called normal years.

Experience Rating.—It appears that the accumulation of actual experience in terms of liabilities assumed, premiums received and losses paid, with ratios, by

counties and even townships where participation is heavy, and by crops, is essential. The principle of experience rating should be undertaken as a check on present methods and as a means of verifying present premium and insured production calculations. The actual experience, as indicated above, in both good and bad years, is probably the most dependable gauge of the adequacy or inadequacy of rates. While the staff has given some consideration to experience figures, apparently liability has not been used to indicate loss cost ratio for comparison. Commercial companies use loss cost figures almost entirely in making rates for hail insurance on growing crops. County trends, based on insured risks, should prove more dependable than averages of all farms, on many of which insurance may not be written.

UNDERWRITING—UNINSURABLE RISKS AND AREAS

Consideration also may well be given to the mapping of liability before acceptance by the Corporation. In this way a risk can be selected in advance. Another reason for mapping liability before acceptance is that in certain instances it would develop unexpected local hazards, possibly of a temporary nature, which would be out of proportion to other areas in the immediate community.

LOSS ADJUSTMENTS

The proper training of men under the supervision of men with insurance claims experience to actually handle the loss work will repay the cost many times and there would appear to be need for more care and supervision of loss adjustments to make more certain that farmers are not paid under any conditions more than their loss.

75 PERCENT OF YIELD

It is appreciated that the law now provides that coverage shall be granted for 75 percent of yield, but that 50 percent may be provided. Consideration may well be given to having this provision changed to a lower figure than 75 percent. There is a possibility of obtaining 100 percent cover on a 75 percent basis.

CONTINUOUS POLICIES

In cases where term or continuous policies have not been provided, steps should be taken to place all business on a continuous basis, subject to cancellation by either party with written notice well in advance of planting date. Two weeks may not be a long enough period in advance of planting date to avoid adverse selection. Such type of policies should simplify operations and make for a better spread.

COMMISSIONS

The payment of a modest commission is desirable in order to encourage qualified men to sell the business, with a lower figure after the first year. The amount, preferably a percentage of the premium, should be considered in connection with the total acquisition cost limitation.

ADDITIONS TO BASIC CROPS

It is understood that the FCIC has concluded not to put into effect for this year experimental programs on citrus fruit, peanuts and potatoes or possibly until such time as crop insurance can be more successfully operated on the basic crops of wheat, cotton and flax. It would seem highly advisable to add no additional crops. Further experimentation may be desirable on tobacco and corn, but it is suggested that it be limited to counties in which this program is now in effect. The factors which have caused heavy losses are inherent in any crop and the welfare of the program may be further jeopardized by assuming increased liabilities. It would seem that crop insurance must still prove its feasibility, and to burden the staff with additional volume and problems would seem unwise.

THE INVESTMENT PLAN

This plan has been used experimentally on corn and tobacco. While more attention was given to the yield plan, the progress of the investment plan was investigated. The record to date has been good and may continue to be better than the yield plan as long as there are price supports. However, such a plan involves the insurer in the hazard of market. Private companies tried this plan, with

disastrous results, and it cannot be denied that market price has been and may prove, in the absence of some support, to be one of the most devastating sources of loss which a farmer faces. The fundamental question to be decided is whether insurance or some other means is the better solution which would be applicable to all farmers.

Under an insurance plan which guarantees a price, the incentive to abandon the crop in time of price collapse is so great that the insurance company meets with disaster, as there is always some damage from some hazard covered. During the near future, probably three years, even though parity may not be redefined and so long as loan and purchase programs are in operation, the farmer will be receiving a form of price insurance. To blend weather and price hazards in a crop insurance program, in the absence of market stabilization and other controls, leads to disaster. It promotes planting and insuring in times of overproduction as a gamble. Furthermore, it promotes waste, as crops on which losses are paid remain in the field because the expenditure of harvesting costs only accentuates the loss. The experiments of private companies are conclusive with respect to price insurance and should condemn any such undertaking by the Government, especially if controls and supports should be removed. Price insurance does not solve a bad condition of oversupply and market collapse—instead it aggravates it. The matter of price or farm income is still part of our broad policy of parity for farm crops and, if supported, should be through other facilities, and even if such facilities are dropped or modified should, in our opinion, not be shouldered by the FCIC.

CONCLUSION

Many changes have been made in the regulations and some others are contemplated for this year, which would have improved the experience had they been in effect since the inception of the program. Such outstanding and proper safeguards as (a) loss reduction provisions, (b) designation of uninsurable areas, (c) increased rates, (d) earlier closing dates for the taking of applications, and (e) the continuous plan of contract with growers, should do much to improve the record.

While it would be presumptive to predict future results of the Corporation, it seems only fair to say that much has been done to put it on a better basis. Even though we spent more time reviewing operations, two outstanding conclusions have been reached, namely, (a) that a local representation responsible directly to the Corporation is vital to success and (b) the Corporation should not be burdened with further basic or experimental crop undertakings until existing problems have been more satisfactorily resolved. It also appears that the adoption of additional measures to provide further safeguards, some of which are mentioned herein, are essential, if the business of the Corporation is to be or can be placed on a self-sustaining basis.

NATIONAL ASSOCIATION OF INSURANCE AGENTS,

Washington, D.C., June 4, 1946.

To: The Management, Federal Crop Insurance Corporation, through James O. Cobb, Consultant.

From: Special Committee, National Association of Insurance Agents, through Oscar H. West, Washington Representative.

Subject: Observations, Criticisms and Recommendations following Conferences with FCIC Management, April 17 and 18, 1946.

Following conferences our Special Committee had with FCIC Management in Washington, April 17 and 18, we were requested to submit such observations, criticisms and recommendations as we felt might be helpful to the Federal Crop Insurance program. The same are included in this communication.

First, may we express to the Secretary of Agriculture our appreciation for his invitation to study Federal Crop Insurance and to be made "partners" in the venture, and thank him for his confirming letter of April 22 to Chairman Warfield in which he so courageously outlines his practical, businesslike and sound ambitions for the Crop Insurance program. May we also express our appreciation for the privilege of meeting with the Management and operation staff—for their frankness, sincerity and enthusiasm.

The combined Committee Report follows, and we are attaching the individual reports of our Committee members, Guy T. Warfield, Jr., Chairman, Baltimore,

Maryland; Frank S. Wilkinson, Rocky Mount, North Carolina; Sidney O. Smith, Gainesville, Georgia; J. V. Arthur, Winchester, Virginia; and B. H. Strom, Jackson, Minnesota.

REPORT OF COMMITTEE

Observations

1. There appears to be a definite need for all-risk crop insurance in order to help stabilize the national farm income. It is generally accepted that this need because of the enormous catastrophe hazard cannot be supplied by private industry at this time. It must be insurance and not a subsidy.
2. That the Secretary of Agriculture is sincere in his determination to put the program on a sound, self-supporting and efficient basis and not have it compete with private enterprise, where private enterprise is doing a good job.
3. That the personnel presently consists of men—honest and sincere—who are largely agriculturists and theorists with little knowledge of the fundamentals of real insurance.

Criticisms

1. Because of the present plan on field work, Federal Crop Insurance Corporation, in the eyes of the farmer, is just another New Deal agency handing out money.
2. The insuring contract is too ambiguous and complicated.
3. The sales contract is consequently too complicated to be understood and the rate of sales commission too low to produce a proper salesmanship incentive.
4. We question whether the loading for catastrophe hazards is sufficient since it is an arbitrary figure. It would seem wise to increase it somewhat.

Recommendations

1. Divorce FCIC from AAA as rapidly as possible but maintain their friendship and cooperation—work toward a completely independent unit—a real insurance operation.
2. Simplify the policy contract and build it into a simple document of the type that the insuring public is accustomed to buy.
3. Revise the application so that the statements of the assured become warranties in the policy—more responsibility on the applicant.
4. Organize the whole FCIC operation along lines which have proven to be successful in commercial insurance operations. For instance, it has been found necessary in commercial insurance operations to have a continuing market. A better selling job with repeated purchases each year by the same farmers would help stabilize the entire operation.
5. Reduce the contract to dollars in principal sum, dollars in rates and in premiums—make the policy the entire contract.
6. Do the same to your agency contract.
7. The maximum coverage in dollars allowed should in no case exceed a percentage of the farmers' actual out-of-pocket expense in making a crop—indemnify him for loss but give him an incentive to prevent loss. Allow no possibility of profit from this insurance.
8. Cut off all coverages as soon as possible after harvest.
9. Pay all employees, salesmen and losses with your own check—loyalty to any job and work performed runs regularly to the paymaster.
10. Agent's commission should be increased and standardized and your product made more attractive and salable.
11. Bring into your organization practical and experienced insurance personnel, particularly for your (a) Underwriting, (b) Sales, and (c) Loss Departments (trained, impersonal loss adjusters should be employed). Clothe them with proper authority and hold them responsible for performance.

GUY T. WARFIELD, JR., *Chairman.*

FRANK S. WILKINSON.

SIDNEY O. SMITH.

J. V. ARTHUR.

B. H. STROM.

We thank you again for the opportunity to work with you and assure you of our continued interest, perhaps looking forward to a more active participation by the insurance industry in making the program sound and lasting—sound as real insurance, understandable and salable.

Respectfully submitted,

OSCAR H. WEST,
Washington Representative.

Enclosures.

NATIONAL ASSOCIATION OF INSURANCE AGENTS,
Baltimore, Md., May 7, 1946.

Re Federal Crop Insurance Corporation.

Mr. OSCAR H. WEST,

Washington Representative, National Association of Insurance Agents,
Washington, D.C.

DEAR OSCAR: You, no doubt, have the reports of the other members of the Committee and there is not a great deal more in summing up. I do think that we should digest these as to the principal points which we would like to include in the report which you and I will draw to file with Jim.

I think most everyone is in agreement and I agree also, that in the first place it should be put on a dollar basis. Secondly, you should divorce the entire operations from the A.A.A. as soon as possible, but that even before then there should be in the Organization of the Corporation, a definite person charged with the responsibility of selling this, who has had considerable experience in marketing insurance, who at least could act in an advisory capacity.

There also should be in the Corporation, a competent claim man and all claim drafts should be drawn over the signature of the Federal Crop Insurance Corporation rather than the A.A.A.

This seems to be the general consensus of opinion of most everyone involved in the committee and I think that those are the points that you can use as the principal ones, although if you should desire any of the others to be included in the very interesting letters which have been written by the various members of the Committee, that will be perfectly satisfactory to me. I will leave the matter pretty much in your hands to work out and will be glad to discuss the matter with you in Cincinnati.

With best personal regards.

Sincerely,

GUY T. WARFIELD, JR.

WILKINSON, BULLOCK & Co.,
Rock Mount, N.C., April 26, 1946.

Mr. GUY T. WARFIELD, JR.,

Chairman, Special Committee on F.C.I.C.,
Baltimore, Md.

DEAR GUY: For the sake of brevity, I am outlining my thoughts as a result of our most interesting meeting in Washington in three headings as follows:

OBSERVATIONS

1. There appears to be a definite need for all-risk crop insurance in order to stabilize the national farm income.
2. This need is not being met by private industry due to its hazardous nature and its magnitude.
3. We may therefore assume that the Federal Government is justified in setting up the Federal Crop Insurance Corporation.
4. The Secretary of Agriculture seems determined to make the F.C.I.C. self-supporting and managed in an efficient manner as is expected of any other insurance company.

CRITICISMS

1. In the eyes of the farmer, F.C.I.C. appears to be another New Deal governmental agency handing out government funds. This is brought about by its close affiliation with A.A.A.
2. It seems to me that the policies of the Corporation are controlled too much by theorists and not enough by experienced Underwriters.
3. The contract is most ambiguous as to premium payment, coverage and loss adjustment.
4. The Corporation has done a poor job of public relations and is in definite need of experienced salesmen.
5. 1945 was one of the best farming years this country has experienced and yet 25 percent of the premiums due last year are still outstanding. This indicates a very poor collection system.
6. There is a tendency to broaden the contracts as has been done with tobacco to provide coverage available through private insurance companies.

RECOMMENDATIONS

1. Divorce F.C.I.C. completely from A.A.A. This will cure many ills.
2. Have experienced Underwriters review the entire rate making and underwriting procedure of the Corporation so that rates will be commensurate with the hazards assumed in the various localities and proper reserves built up for catastrophe losses.
3. Limit F.C.I.C. contracts to cover only the farmer's actual expenses of making the crop. In other words, restrict the amount of coverage so that profits will not be covered.
4. Clarify the contract by having premiums and losses paid in dollars instead of commodities and simplify it so that the purchaser will have a definite understanding of what he is buying and the extent of the coverage. This accomplished by private companies by incorporating the insurance contract in the application which the farmer signs.
5. Cover the crops only while they are in the field. To extend the coverage to the farmers' storages as has been done on tobacco competes with and duplicates the coverage provided by private companies.
6. Inaugurate a more efficient collection plan for notes. The poor collection record is probably brought about by farmers who have not had claims and feel that they owe nothing to the insurance company since it is supported and subsidized by the Federal Government. This can be remedied to a large extent by eliminating the A.A.A. from the picture completely.
7. If a thorough job of selling this insurance is to be done, the salesmen should be highly trained men and paid a sufficient commission to stimulate and encourage them to solicit this business.

Needless to say, the Committee meetings in Washington were most enlightening to me and I feel that I learned much about the F.C.I.C. I definitely feel that the question of selling these contracts is a decision for the individual states to make, but I think it is our duty to inform the members of the National Association as to what the Federal Crop Insurance is endeavoring to accomplish and let them decide for themselves.

It was a real pleasure being with you and the other members of this Committee and I am looking forward to seeing you again at Cincinnati.

Yours Sincerely,

FRANK S. WILKINSON,
Chairman, Rural Agents Committee.

GAINESVILLE, GA.,
April 28, 1946.

Mr. GUY T. WARFIELD, Jr., *Chairman,*
Baltimore, Md.

F.C.I.C.

DEAR GUY: My visit to Washington on 16th was one of the few pleasant experiences there because of the amazing progress Jim Cobb has made in friendly contacts for stock agents and companies with Federal agencies and because of Secretary Anderson's courageous and remarkable statement.

My reflections are based upon the premise that the insuring of growing crops can be reduced to sound underwriting practices and if continued as now set-up should be fought politically for abolishment. Farmers must run great risks in planting and growing crops. If they can be insured, it is inconsistent to try to sell them insurance on buildings, etc. and denounce crop insurance. I am not prepared yet to concede that private insurance cannot do the job if allowed to follow sound methods but if the liability is too big (like war damage) we should not fight any sound plan by the government.

Without elaboration, I would recommend the following steps be undertaken:

1. Revise the application so as to obtain more facts and place some responsibility upon the applicant as to facts stated therein.
2. Reduce the contract to dollars in principal sum and rate and premium. The policy should also be the entire contract.
3. I do not agree that anyone "who can count to ten" is qualified to adjust a claim. Adjusters should be trained and not neighbors and friends of the claimant.
4. In approved areas (counties, districts or townships) at least $\frac{2}{3}$ of eligible must sign up before the insurance is available.
5. I believe the indemnity should cover initial cost and only a percentage of yield. The grower should stand to lose part of the yield loss. This gives him an

incentive to prevent loss but indemnified his initial investment. The Crop Production loans should be protected by insurance.

6. If sound, non-subsidy insurance can be set-up, real salesmen are required. Who they should be I do not know but enough commission incentive offered to get real volume. When the protection is reduced to a solid contract, payable in dollars and paid for in dollars, it becomes insurance as we know it and I would deplore seeing our license laws violated by the appointment as agents who are not agents of insurance as the laws define them. (Case of Mississippi planter agent for his tenants.)

You will receive so many excellent suggestions from others of the Committee, I will rest upon the above.

Faithfully yours,

SIDNEY SMITH.

J. V. ARTHUR,

Winchester, Va., April 24, 1946.

Re Federal Crop Insurance Corporation, Washington, D.C.

Mr. GUY T. WARFIELD, Jr.,

Chairman, Special Committee, Federal Crop Insurance Corporation, Baltimore, Md.

DEAR MR. WARFIELD: As a result of our visit last week to the Department of Agriculture in connection with the Federal Crop Insurance Corporation, I am giving you below my observations. These observations are based on almost twenty-six years' experience in the general insurance business, plus the selling of the only available crop insurance we have in my section, namely hail insurance, for a period of the same length of time, with the exception of three years 1925, 1926 and 1927 when no hail insurance facilities were available from any Insurance Company.

I am unalterably opposed to the Government competing with private enterprise in any manner. I am convinced that the Secretary of Agriculture and his insurance advisors are attempting to put this Corporation on a business basis and are sincere in their efforts in this connection. I know that it is not possible for this type of insurance to be furnished by any group or combination of private carriers on the same basis as it is now supplied by the Federal Crop Insurance Corporation. In my opinion, there is at the present time a definite need for this type of insurance, provided it can be supplied as insurance and not as a subsidy, which it is in its present form.

For this Corporation to be put on a business basis so that it will supply insurance, there are a great many changes that will necessarily have to take place. The first, in my opinion, is that the Federal Crop Insurance Corporation should stand on its own legs and be known to the assured as an Insurance Company. To do this they will necessarily have to change their present tie-up with the A.A.A. Program. Expenses for conducting the Corporation's business should be greatly reduced. The present costs are entirely out of proportion to the volume of business done. The contract should be made more understandable; the policy should be issued on a dollar and cents basis and not as it now is on a basis of bushels and pounds. The Federal Crop Insurance Corporation should pay their losses with their own check. This again identifies the Insurance Corporation to the assured. The Agents' Commission should be, in my opinion, increased and standardized, making it more attractive as a salable article.

The Federal Crop Insurance Corporation should have trained salesmen and they should get a spread of their business throughout the entire United States as compared to their writings now, which are in the sections which are needed for crop failures from year to year.

Inasmuch as the Secretary of Agriculture has expressed himself very clearly in his letter of April 22nd to you as Chairman. I feel that the National Association should make a further study of this and as long as the Government is not competing nor intends to compete with private enterprise that we should work out some form of assistance, in-so-long as this type of insurance cannot be furnished by our own Insurance Companies, but with the distinct understanding should the plans not be carried out as outlined to us, or any change be made by this Corporation to compete with private enterprise we should immediately withdraw any support that we may have supplied.

The insuring of crops as is now done by this Insurance Corporation is a most gigantic proposition and requires above all intelligent underwriting in order to make it insurance and not a subsidy.

I trust that from these few remarks you will be able to gather just how I feel about this.

It was a genuine pleasure to work with you on this, and I trust that my service has resulted in something tangible.

With kind personal regards, I am

Sincerely,

J. V. ARTHUR.

STROM & STROM,
Jackson, Minn., April 26, 1946.

Mr. GUY T. WARFIELD, JR.,
Baltimore, Md.

DEAR MR. WARFIELD: I arrived in Jackson on Wednesday evening, having left Washington Sunday afternoon, and starting home via the Gettysburg battlefields. The whole trip was most enjoyable, and I was most pleased to have met you and the committee, and learned something more of the efficient manner of operations of our National Assn. and of the FCIC, which requires more of that efficiency.

Yesterday I talked with a representative of the farm loan department of one of the life insurance companies, and with a local editor. I was telling them of our meeting, and both seemed concerned that this might be an entering wedge toward more government entry into business. I agreed that this was a danger, but pointed out that in this case, it appeared to be something which could not be furnished by the Companies, and therefore it was to our advantage to assist in making FCIC efficient in its operation.

From our discussion with FCIC, it appears, as was pointed out, that a broader spread of coverage is required to produce sufficient premium, at a relatively reasonable rate. This can only be arrived at by more careful selection and efficient salesmanship. I believe the State Directors of FCIC should have a reasonable number of regional supervisors, who should also be trained adjusters, and these men should arrange appointment of agents, either in the insurance business, or if efficient out of the AAA office, but as an independent activity from AAA. I believe the application for the insurance should be more complete, and set forth certain facts as warranties. Such facts to include statements as to whether certain acres had been normal producers most years, etc., to eliminate extra low or stony spots, etc. which could never produce. Then too, that this included all his acreage of such crop. The general territory could be regulated by an overall rate, depending on its normal production, which the individual application would modify by the facts shown. I believe the adjustments should be made by a different person than the agent, but think the fuller application will keep agent and assured "in line."

I think the most valuable change which could be made at this time is to get the change over from bushels to dollars. It is the universal language, and will make both contracts and adjustments more understandable, and with much less detail, it seems to me.

I have just had a talk this morning with a man who lived for many years in Kansas and saw the operation of FCIC there in connection with wheat. He said that farmers there figured that the wheat crop for the coming year depended on the rainfall in July and August of the preceding year. He said during the dry years many farmers knew the rainfall was lacking for the coming year, and ran over their fields with empty drills, but made claim that no crop came up, and collected on the basis of total crop failure. There may be exaggerations in this story, but the fact remains that with a careful application form, the farmer can be prevented from collection if his application shows he had made false statements. Businesslike supervision is necessary in this program, but it appears to be very lax under the AAA supervision, and I think the FCIC should be put on an independent footing from AAA at an early date.

I do not believe FCIC should expand to take in other crops at a fast rate, but should make study of it, and trial spots, as they are doing with tobacco and corn at present. Using various scattered areas will not prove disastrous in case of failure, but will aid in procuring the necessary experience.

Thanking you again for the privilege of being a member of your Committee, and assuring you that I will be glad to be of further assistance in any way I can, I am,

Very sincerely yours,

B. H. STROM.

MAYS REPORT

REPORT OF FEDERAL CROP INSURANCE CORPORATION ADVISORY COMMITTEE

APPOINTMENT OF COMMITTEE

On December 27, 1954, Secretary of Agriculture Ezra Taft Benson appointed a Federal Crop Insurance Corporation Advisory Committee. Memorandum of Appointment No. 1370, which was signed by Secretary Benson, reads as follows: "A Federal Crop Insurance Advisory Committee is hereby appointed pursuant to the provisions of Section 515 of the Federal Crop Insurance Act, as amended (7 U.S.C. 1515). The Committee shall serve in an advisory capacity to the Board of Directors of the Federal Crop Insurance Corporation on crop insurance matters and undertake an independent study of the current status of recommending or suggesting program or operational changes to strengthen the service of the crop insurance program to farmers and the soundness of its operation."

The Committee has now completed its study and is submitting its observations and recommendations as follows:

GENERAL OBSERVATIONS

The Federal Crop Insurance Act, as amended, provides in Section 502:

"Sec. 502. It is the purpose of this title to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance. (7 U.S.C. 1502)"

In making its study of the operations of Federal Crop Insurance Corporation, the Committee was quick to recognize that agricultural production is subject to a variety of natural hazards which cause sharp fluctuations in farm income, thus jeopardizing a stable farm economy and thereby adversely affecting the total national economy. The Committee is convinced that the purpose of the Act as quoted above is a worthy one. The Committee's study has attempted to determine the degree of success with which this basic objective of the Federal Crop Insurance Act is being realized.

Operating results of the Corporation

Since Federal Crop Insurance Corporation was created by Congress in 1938, premium income received by the Corporation through the 1954 crop year has totalled \$263,159,574, and indemnities paid during this period have amounted to \$355,064,043. Thus, the operations of the Corporation from 1938 through 1954 have resulted in an excess of indemnities paid over income received of \$91,904,469. In addition, administrative costs have been \$83,503,309. There has also been provided \$3,454,501 in the period since 1938 for uncollectible accounts, which, when taken together with indemnities and administrative costs, indicate a gross deficit of \$178,862,279 for the 16 years of the Corporation's existence. There was no insurance written in 1944, but of the remaining 15 years there were only 4 in which claims payments have not exceeded premium income. Even during the course of the present experimental programs, which has been in operation from 1948 to 1954, claims payments have exceeded premiums by \$8,332,144, and with administrative costs and the provision for uncollectible accounts taken into consideration, the gross deficit during this 7 year period amounted to \$47,363,882. In making this reference the Advisory Committee is aware that there is some uncertainty as to the extent to which the Corporation can legally include a loading in the premium to cover all or a portion of administrative costs.

In the report on Audit of the Federal Crop Insurance Corporation for the fiscal year ended June 30, 1953, the following comment on administrative expenses is made:

"The costs to the Government for operation of the Crop Insurance Program include costs of certain services and benefits which, under existing law, are furnished by other Government agencies without charge to the Corporation. These costs are in addition to the annual appropriations made available to the Corporation for administrative and operating expenses. The services and benefits so furnished since inception of the Corporation include the use of funds supplied by the Treasury without charge for interest, legal services rendered by the Departments of Agriculture and Justice, employees' retirement, disability, and compensation benefits, and other sundry items. During the fiscal year 1953 and other previous years, the Corporation also was furnished mail service without charge,

but, beginning in the fiscal year 1954, it is required by law to reimburse the Post Office Department for costs of this service.

"With respect to interest-free capital, the Treasury incurs no interest costs on account of the insurance program when the corporation's insurance funds on deposit with the Treasury exceed the Government's investment in the Corporation's capital stock. This condition existed on June 30, 1953. However, the recorded costs of the program since inception do not include a charge for interest during those periods when the Government's investment in capital stock was impaired by insurance losses, and cash balances were less than the capital stock investment."

The conclusion seems inescapable to the Committee that a "sound system of crop insurance" has not yet been established. Income from insurance premiums in any such system obviously must be sufficient to balance outgo for losses and expenses and, in addition, to provide a margin that will permit the accumulation of a reserve against certain contingencies. The Committee is strongly of the opinion that the creation of such a reserve should not only be permitted but indeed encouraged and that such reserve funds should be held inviolate for the payment of unexpected losses.

Subsidy payments versus insurance payments

It appears to the Committee that in certain of the past operations of the Corporation, there has not been a clear demarcation between a sound system of insurance and subsidy payments to farmers. In making this comment the Advisory Committee is taking no position on the matter of subsidy payments except to state its opinion that subsidies should never be granted in the guise of insurance payments. If subsidies are to be paid to farmers for any reason whatever, the Committee feels that they should be labelled as such and that it would be proper to have the nature of and authority for such payments clearly provided for legislatively and not as a result of administrative decisions within Federal Crop Insurance Corporation.

It has seemed to the Advisory Committee that crop insurance has been used in many instances to support farming operations that are economically unsound. Collaterally, the Committee has noted that many of the operations of the Corporation are such that by any standards of sound insurance they never could approach the "break-even" point where claims and expenses paid are offset by premium income with sufficient provision in the latter for a reasonable reserve against certain contingencies, all as provided for in the Federal Crop Insurance Act. The Committee notes that the present management of the Corporation has introduced certain changes designed to make the operations of the Corporation conform more nearly with sound insurance operating procedures.

Competition with commercial business enterprises

The Advisory Committee is unanimous in its opinion that, as a general principle, Government should not be in competition with commercial business enterprises. The Committee recognizes, however, that when such business chooses not to engage in an activity deemed essential to the national welfare, Government is virtually obligated to undertake such activity until commercial capital is able to occupy that economic area. The Committee notes that for the most part the activities of Federal Crop Insurance Corporation are not regarded as being competitive with commercial insurers. A notable exception is in the insurance on tobacco, which provides that the coverage shall follow the crop from the fields into curing barns and pack houses. Where crop insurance extends inside such structures to cover against such perils as fire and windstorm, it becomes directly competitive with the traditional coverages offered by commercial fire and marine insurers. The Committee is informed that there would be no particular administrative difficulty in making the present concept of Federal Crop Insurance non-competitive with commercial fire and marine insurance at this point, and it does not believe that such action would defeat the primary present purpose of Federal Crop Insurance.

Market for Federal crop insurance

The Advisory Committee considered carefully whether Federal crop insurance is at present designed to attract the average or better than average farmer or whether, in fact, a preponderance of the farmers being insured by the Corporation are less efficient operators than the average. Actually, this is an imponderable upon which there can be no definitive findings. There is a considerable body of opinion, however, that the average or above average farmer can not be

interested in crop insurance as it is now being offered by the Corporation because even in years of virtual crop failure the average farmer will realize a crop in excess of the coverage provided under the Corporation's insurance policy. There are a number of factors that lend support to the contention of many that crop insurance is attracting principally the marginal farmers who are below average in efficiency or productiveness. Of the total potential participation in the 884 county crop programs which the Corporation operated in 1954, there was only 23 per cent actual participation.

For coverage on certain crops, the percent of farmers participating in the 1954 program was even less than the average participation. For example, there were only 14 per cent of eligible farmers participating in the corn insurance program in the 99 counties in which such insurance was offered; 15 per cent of eligible farmers participated in the cotton insurance program in the 101 counties where cotton insurance was written; 25 per cent of eligible farmers, or slightly more than the average, participated in the winter wheat insurance program in 302 counties where that program was available—the latter program being the most extensive in which the Corporation is engaged. The operating record of the Corporation has indicated that either the less efficient farmer is being attracted to this program or the sales program of the Corporation leaves something to be desired or the coverage granted and premiums charged for crop insurance are unrealistic. Perhaps all of these factors have a bearing on the problem. The unfortunate fact is that if this program actually is geared to the needs of the less efficient farmers the rates and procedures of crop insurance will become progressively less attractive to the good farmers and eventually only those farmers who are almost certain to have frequent losses will purchase crop insurance. It was noted by the Committee that in many instances there appeared to be inadequate underwriting safeguards available to enable the Corporation to obtain an average cross section of risks in order to avoid almost certain underwriting losses. In this connection, the Committee observed that the Corporation has sustained crippling losses by continuing to write insurance in the so-called "dust bowl" area of Kansas, Colorado, New Mexico and Texas where in only 11 counties indemnities exceeded premiums by \$14,379,654 during the period 1948—54, inclusive. The operations of the Corporation are such that it would be virtually impossible to recoup these losses during more favorable crop years. The Committee wonders if on a long term basis the Corporation is not doing a disservice to agriculture by implicitly encouraging agricultural operations in an area which study may reveal is totally unsuited for farming as currently practiced there.

Investment feature of Federal crop insurance

The Advisory Committee approached its study upon the assumption the crop insurance is an "investment program", that is to say that the insurance coverage granted was intended to be approximately equal to the cost of production of the crop. Perhaps this assumption was based upon the Committee's interpretation of the Federal Crop Insurance Act, which provides in Sec. 508 that the "... insurance offered against loss in yield shall not cover in excess of 75 per centum of the recorded or appraised average yield" and further "that if 75 per centum of the average yield represents generally more protection than the investment of the crop in any area, taking into consideration recognized farming practices, the Board shall reduce such maximum percentage as more nearly to reflect the investment in the crop in such area." The Committee understands that actually the extent of coverage and the level of rates for crop insurance are established on the basis of a county average and that counties are subdivided into separate coverage and rate areas with still further subdivisions in certain instances for individual farmers. The Committee questions whether in the writing of crop insurance, which is commonly regarded as being essentially a catastrophe coverage, such actuarial refinements can be justified. The Committee has learned, for example, that in certain tobacco counties the coverage ranges from a low of \$265 per acre in the most unfavorable producing area of the county to a high of \$565 per acre, which is considerably higher than the cost of production of the crop. One particular tobacco county is divided into 11 areas of production with differing amounts of coverage for each area, but all carrying the same premium rate per acre. It would appear to be impossible to evaluate soil types and growing conditions accurately enough to justify such a classification, even if this were a sound insurance practice. The Committee also notes that in the proposed 1955 cotton actuarial table for one of the principal cotton growing states of the southeast, insurance coverage varies from county to county from a low of \$23.04 per acre at a premium rate of \$9.28 to a

high of \$76.80 coverage at a premium rate of \$2.56 per acre. The Committee wonders if this wide difference in coverage and rate can be justified by variations in soil and growing conditions or by any other proper consideration. It seems to the Committee that a real insurance problem of rate making and underwriting is involved here.

Positions of national farmers' organizations on Federal crop insurance

During its deliberations, the Advisory Committee agreed that it would receive for the record any written statement on the subject of Federal crop insurance submitted by any farmers' organization. Three such organizations submitted statements of their positions as follows:

"We strongly recommend that the crop insurance program be placed on a sound actuarial basis and that premiums include reasonable charges for administrative expenses. We will continue to oppose any expansion of the crop insurance program until this is done.

"Since the program is on an experimental basis, it should be discontinued or modified in those areas where repeated experience shows that the program is not now on a sound actuarial basis.

"We further urge a careful study of the desirability of converting federal crop insurance to a reinsurance program for privately operated crop insurance programs."—American Farm Bureau Federation.

"In 1949 our Delegate Body adopted the following policy:

"Crop insurance must be considered as a necessary part of a well-rounded program to promote agricultural stabilization, and to protect farmers against the hazards of weather and other conditions beyond their control. We, therefore, approve crop insurance under the auspices of the Government, with such safeguards as are necessary to protect the public interest.

"In 1952 our Delegates resolved:

"We approve a voluntary and self-supporting crop insurance program.

"Last fall (1954) our Delegates adopted the following statement:

"We recommend development of self-financing crop insurance programs for producers as a basic feature of a long-term farm program."—The National Grange.

"We continue our support of universal crop insurance against all farm production hazards with participation open to all farmers. The existing limited program should be expanded rapidly to make crop insurance available on all crops to all farmers in all counties. We particularly commend the value of multiple-type crop insurance. The cost should be borne by all participating farmers and by the nation as a whole. We urge exploration of expansion of crop insurance principles to protection of livestock enterprises. We are opposed to the present policy of turning federal crop insurance program over to urban, private insurance companies."—National Farmers Union.

Proposed expansion of Federal Crop Insurance Corporation operations

The Advisory Committee understands that under the Federal Crop Insurance Act as amended the Corporation is permitted to expand on an experimental basis to not more than 100 additional counties per year and that plans actually are under consideration in the Corporation for expansion in perhaps as many as 50 additional counties for the 1956 crop year. The Committee is not unsympathetic with the idea of expanding the activities of the Corporation on a sound insurance basis if that is necessary for the accomplishment of the stated purposes of the Act, but it does have certain reservations as to the wisdom of a program of expansion in the face of unfavorable underwriting experience and with operational problems within the Corporation yet to be solved. The so-called law of averages will only serve to magnify errors in underwriting or ratemaking—it has never yet served to correct a basic operating error.

The Committee wonders if more satisfactory underwriting results could not be realized by more intensive and constructive selling efforts in the counties where the operating results of the Corporation have been generally satisfactory than by using available funds and personnel for expansion of the operations of the Corporation in the 1956 crop year into new and untested areas. A review of the sales summaries prepared by the Corporation indicates that efforts to sell crop insurance have been less than completely successful. As previously noted, the actual participation in the 884 county crop programs was only 23 per cent of the potential participation in the 1954 crop year, and in a number of states in which the potential participation is the largest, the actual participation was well below the average of 23 per cent, ranging down to 14 per cent and below in certain states.

Sale of Federal crop insurance

Prior to 1954 the sale of Federal crop insurance was handled by the county committees and county offices of the former Production and Marketing Administration of the U.S. Department of Agriculture. At the beginning of 1954, a change-over by the Corporation to a system of local representation by agents had been completed. During 1954 there has been a turnover of almost 25 per cent within the ranks of the local representatives of the Corporation.

Concurrent with or perhaps as a result of this upheaval in the sales force of the Corporation, approximately 26 per cent of the contracts in force in 1953 were cancelled so that even with new sales for the 1954 crop year, there was a net loss of 12 per cent in the number of contracts in force in 1954 as compared with the previous crop year. A further indication of what appears to be a trend in the sale of Federal crop insurance is found in the record of premium income. In 1953 premium income was \$27,104,950, and in 1954 it was \$22,620,700, a decline of \$4,484,250, even in the face of a higher level of rates that the Committee was informed is generally being put into effect.

An analysis of actual and potential premium volume and of operating expenses and other pertinent factors has convinced the Committee that the Corporation is operating at present in many counties where an insurance program does not appear to be economically feasible.

The Committee is unconvinced that sales territories for crop insurance should necessarily follow the geographical pattern for location of other service offices of the U.S. Department of Agriculture, nor does the Committee feel that adequate attention has been given to the agents' compensation or to other sales incentives. These are all matters which the Committee believes might well be reviewed and studied carefully to the end that more satisfactory sales and underwriting results can be realized in counties where the Corporation is now operating before it undertakes expansion elsewhere.

Research

The Advisory Committee has gained the impression that the operating divisions of Federal Crop Insurance Corporation are not making full use of information already available within and outside the Corporation which might be of assistance in creating a sound system of crop insurance. Specifically, the Committee is of the opinion that not enough effort has been made to assemble needed underwriting information on such matters as plant physiology, climatology, soil mechanics and actuarial procedures for use in connection with insurance rate-making. The Federal Crop Insurance Act as amended specifies in Sec. 506 that the Corporation:

"(h) may conduct researches, surveys, and investigations relating to crop insurance and shall assemble data for the purpose of establishing sound actuarial bases for insurance on agricultural commodities;"

A comprehensive research program in all matters relating to underwriting would seem to be an integral part of crop insurance rate and coverage considerations.

Adjustment of losses

Crop insurance losses are adjusted by per diem employees of the Corporation who, for the most part, are recruited from the ranks of farmers, school teachers, students, Government employees, and, in certain cases, agents of Federal Crop Insurance Corporation. These employees are given a limited amount of training in the Corporation's loss adjustment principles and practices. There are at present no salaried loss adjusters employed by the Corporation. A system of using per diem employees does not seem to the Committee to be conducive to the development of or employment of the best loss adjustment procedures. The settlement of losses was a factor that was considered carefully by the Committee and was regarded as being of sufficient importance to warrant careful investigation by the Manager of the Corporation. The Committee's attention was directed to the breakdown this year of the loss settlement procedure in the Chicago branch office of the Corporation, but it appears that this is a matter that can be corrected administratively.

Multiple crop insurance program

The Committee has studied with interest the operations of the Corporation's multiple crop insurance program under which coverage is granted on all of the several crops which a farmer grows. Some of the difficulties encountered in writing crop insurance on a single crop have already been noted. It seems to

the Committee that these difficulties are merely compounded in any attempt to write multiple crop insurance. Almost insoluble problems of insurance rate making and underwriting are introduced which make the multiple crop insurance program seem like a hopeless undertaking. The experience on the multiple crop insurance program has been even more disastrous than the program generally. Since 1948, when the program was first introduced, claims payments were \$19,570,000 or more than \$6,000,000 above the \$13,484,000 premiums received during the period under the multiple crop insurance program.

Long-term nature of insurance

Insurance is essentially a long term business and requires a long term approach for successful operation. Month to month or even year to year fluctuations are relatively unimportant if basic operating procedures are demonstrably sound. Short term operating results serve most usefully as a warning of possible deviations from sound operating principles.

The management of the Corporation must go to Congress yearly to seek an annual appropriation for operating expenses for the next fiscal year. Final operating plans for the Corporation cannot be decided upon until Congressional approval is given to the appropriation requested. Reasons entirely beyond the control of the management of the Corporation and perhaps completely unrelated to crop insurance might suggest to Congress a sharp reduction in the appropriation requested for normal operations of the Corporation. Such a reduction might completely undo what had been accomplished in previous years and might make quite impossible the accomplishment of the purpose of the Act. This year to year approach to crop insurance will almost certainly guarantee that claims payments will exceed premiums rather consistently. The Committee believes that the Corporation should be permitted to put itself in a fiscal position that will permit a long term approach to its underwriting and other problems. Whimsical rate changes and arbitrary changes in extent or conditions of insurance coverage breed dissatisfaction and ill will on the part of those who buy insurance whether from Government or from commercial insurance companies. A long range approach by the Corporation would contribute to stability in the Corporation's operating procedures and to the accomplishment of the purpose of the Federal Crop Insurance Act.

RECOMMENDATIONS OF ADVISORY COMMITTEE

The Advisory Committee is sympathetic with the basic purpose of the title of the Federal Crop Insurance Act, which is stated as being ". . . to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance." The Committee agrees that to have a sound total economy, each part of the economy must be sound and that it is therefore essential for the national welfare, by that term meaning a sound national economy, that agriculture be given a degree of stability that will contribute to the national welfare.

With the purpose of the Federal Crop Insurance Act in mind, the Committee recommends the following:

1. (a) That there be a recognition in the operations of the Corporation of the differences between the natures of subsidy payments and insurance payments; (b) that the operations of the Corporation be confined exclusively to providing "a sound system of crop insurance" as prescribed in the Act; and (c) that the organizations might be designated and properly authorized by Congress to make such distribution of public funds. Subsidy payments and insurance payments are incompatible; they should not be confused nor should their disbursement be provided for under the same Act.

2. That the Federal Crop Insurance Corporation be put on a self-sustaining basis, which would permit the payment of losses, expenses, and the accumulation of contingency reserves out of premium income so that the insurance program can be put on a long term basis and freed from the year to year budgetary uncertainties that the present system of operation imposes. In making this recommendation, the Committee is aware of certain of the problems that would be involved in such a transition, and it does not suggest that this goal can or should be attained except over a reasonable period of years. The Committee suggests, however, that if enabling legislation is necessary for undertaking such a course of action, it should be submitted to Congress promptly.

3. To facilitate accomplishment of the above described long range objective, (a) that a Research Department with an adequate budget and staff to study the

long range phases of this problem be established within the Corporation; (b) that such Research Department be independent of the operating divisions of the Corporation and that the Manager of the Research Division report directly to the Manager of Federal Crop Insurance Corporation; (c) that the Research Department be directed to undertake immediately an objective review of the rate-making, underwriting, sales and other activities of the Corporation and that such a review with periodic reports and recommendations to the Manager of the Corporation be a continuing function of this department; and (d) that this department collate information already available from existing Government agencies such as the Weather Bureau, Department of Agriculture, etc. and conduct original research independent of or in cooperation with other Government agencies, all with the objective of assisting in carrying out the stated purpose of the Federal Crop Insurance Act "to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance..."

4. That the Corporation, as an experiment, employ a small corps of full time loss adjusters, preferably with experience in the crop-hail insurance business and assign them, after training in the Corporation's practices, to full time duty in the field; and that, if this experiment is successful, additional adjusters be employed in numbers sufficient to handle the normal loss adjustment work load. It is assumed that per diem employees probably will always be needed to assist in handling peak work loads. The Committee believes, however, that per diem employees would perform more satisfactorily under the supervision of salaried loss adjusters in the full time employ of the Corporation. The Committee also believes that such full time loss adjusters could profitably assist in off-season periods, when there are no losses to be adjusted, in the work of the underwriting division of the Corporation.

5. That the Corporation should immediately withdraw from the writing of multiple crop insurance until it has been demonstrated that insurance on single crops can be and is being granted on a sound basis.

6. That the Corporation cease insuring crops in areas where, by findings of the United States Department of Agriculture or otherwise, it has been determined that economic farming operations cannot be carried on; and that the Corporation immediately cancel all insurance contracts under which the maximum prospective premium would be inadequate to pay normal expected losses, prospective expenses plus a proportionate loading for a reserve against unpredictable contingencies.

7. That the Corporation take such steps as are necessary to reduce the area of competition between the Government and commercial insurers to a minimum; specifically, that the insurance provided by the Corporation not include coverage against perils traditionally insured against by commercial fire and marine insurance companies.

Respectfully submitted.

FEDERAL CROP INSURANCE CORPORATION ADVISORY COMMITTEE,
R. R. COKER.
T. F. MALONE.
J. W. SCOTT.
C. W. TYE.
M. W. MAYS, *Chairman.*

NATIONAL FARMERS UNION,
August 16, 1978.

LEGISLATIVE MEMORANDUM

To: Hon. Walter D. Huddleston, Chairman, Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices.

From: Reuben L. Johnson, Director of Legislative Services.

We respectfully request that this memorandum and the attached statement be included in the record of hearing of your Subcommittee on August 15, 1978.

On September 22 of last year, National Farmers Union presented testimony to the House Agricultural Committee strongly endorsing the concept of a comprehensive and unified farm disaster crop insurance program outlined in the bill introduced by Chairman Ed Jones as H.R. 7111, the "Farm Production Protection Act of 1977." S. 1746 was introduced by you on the Senate side about the same time. We continue to support the concepts outlined in the original legislation.

We are disturbed and concerned, however, with the vagueness and lack of specific detail in the current proposal of the Administration witnesses appearing before your Subcommittee hearings on August 15, 1978.

We urge the Senate Agricultural Subcommittee to continue to support the principles outlined in H.R. 7111 and S. 1746. We believe it is important that Congress pass legislation which will direct the Department of Agriculture to establish a program that offers insurance coverage beyond present programs on a nationwide basis that will protect producers of farm products against loss of their major costs of production when natural or uncontrollable conditions substantially reduces production.

Thank you for your support on this issue.

Attachment.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES,
REPRESENTING NATIONAL FARMERS UNION

Mr. Chairman and members of the committee, as we understand it, the initial objectives of the proposed Farm Production Protection Act were to establish a program that offers insurance coverage beyond present programs on a nationwide basis that will protect producers of farm products against loss of their major costs of production when natural or uncontrollable conditions substantially reduce production.

This legislation will provide the following (S. 1746/H.R. 7111) :

A new corporation to be known as the Farm Production Protection Corporation, with: (1) Authorization for the issuance of \$300 million capital stock to be used to pay for losses in excess of premiums in non-disaster situations; (2) funding provisions for the direct appropriation of all administrative and operative expenses incurred under "normal loss" conditions; and (3) the abolishment of the present Federal Crop Insurance Corporation.

Offer an actuarially-based farm production protection program to applicants on a nationwide basis for the major crops in crop year 1979. Catastrophic or disaster losses charged against the Disaster Relief Fund shall not be included in the protection experience for rating risk and fixing premium rates in subsequent years.

A Disaster Relief Fund which can be used for indemnity payments on a county or area basis upon determination of disaster conditions by the FPPC Board. The Disaster Relief Fund will operate by borrowing from the Treasury to pay disaster-type losses and request appropriations for repayment purposes at a later date. Administrative expenditures will be funded through direct appropriation.

In the initial year of operation (the 1979 crop year), the FPPC could carry a maximum "risk exposure" of about \$20 billion and provide an all-risk, all-county protection plan for producers of wheat, cotton, corn, barley, grain sorghum and rice. In addition, other crops where presently insured by the FCIC will also be covered.

Provide a field delivery system initially using the present FCIC structure and the ASCS State and County structure on a contractual basis.

In successive crop years and by the 1983 crop year, permit FPPC to increase "risk exposure" to about \$32 billion covering all farm crops presently insured by FCIC on a nationwide basis including apples, beans, citrus, combined crop, flax, grapes, oats, peas, peaches, peanuts, raisins, soybeans, sugar beets, sugarcane, sunflowers, tobacco, and tomatoes. Such specialty programs as prevented planting, bee indemnity, wildlife depredation, and pest-specific risk, and such diversified farm products and areas such as livestock and poultry, tame hay and pasture, fruits and nuts, vegetables, milk production, nursery stocks and tree farms are planned to be included.

Provide nonrecurring start-up funds of an estimated \$10 million in fiscal year 1978. Fully operational costs for a nationwide program for the 6 major crops in fiscal year 1980 are estimated at \$458 million for program and administrative expenses.

We understand that it is the intent of the legislation to provide a vehicle to forge a united disaster assistance program, at a minimal cost, which will permit immediate federal action to alleviate farm financial problems caused by natural disasters.

In the event of catastrophic and disaster type loss situations, such as have occurred in areas stricken by drought in 1976, and other recent years, the Secretary of Agriculture is empowered to expend whatever necessary funds are required to meet the needs of the immediate situation in a timely manner.

These expenditures will not be permitted to increase the premium costs or reduce the protection guarantees to participating farmers. This will prevent making the program cost-prohibitive to participants and assure a continuation of the economic stability and protection needed in disaster areas.

The proposed legislation reaffirms the National Farmers Union's position that governmental policies and programs are essential to protect family farmers and ranchers against the hazards of the marketplace as well as the natural hazards addressed in H.R. 7111 that destroy crops before reaching the marketplace.

We have been longstanding supporters of the Federal Crop Insurance program which has permitted farmers to voluntarily maintain a protection program in the face of certain crop losses over a period of time. This legislation utilizes the experience and expertise gained over more than 35 years by the FCIC organization to help develop a more widespread and available program to farmers. It also overcomes some of the longstanding prejudices against the FCIC and provides enough incentive to encourage widespread participation.

The use of the ASCS county committee system, as proposed in this new legislation, also touches upon a firm belief of my organization that the closer we get to the farmer in governmental programs, the more effective those programs will be. The Farm Production Protection Act of 1977 envisions the use of this committee system not only to establish guarantees and premium rates, but to actually help sell and service the program. This would be another case of utilizing long experience and expertise to a progressive end.

We believe that a farm production protection program should be available to family farmers on an equal basis in every county for all crops. This legislation will aim at accomplishing that goal. Many farm programs address themselves only to a partial representation of our farmers. If the economic health of our farm production efforts is to remain stable, we must set the goal of extending such assistance to all farmers on all farm crops.

Through the use of the proposed Disaster Relief Fund, this legislation resolves a conflict in the Federal Crop Insurance program which denies protection to farmers in high risk areas. Use of this fund will not be reflected in the premium rates charged farmers for the protection offered under this Act when disaster occurs, and should make it affordable to all regardless of risk position or loss experience.

There has been some unease regarding H.R. 7111 as a possible invasion of the private sector and competition with the sector in providing farm production protection. It has been, and remains, the position of National Farmers Union that governmental policies and programs are essential to protect family farmers. We believe that it is in the best interests of the farmer and the consumer to see that such a program is put into effect because it meets needs not being provided by the private sector.

We feel there is some urgency for action in regard to this legislation. As you know, a great deal of the Nation's agricultural region has been hit by a devastating drouth in the past two years. Even now the drouth continues in some parts of the country, and it could get worse. Current available federal assistance programs have largely proven inadequate to deal with the magnitude of the problem.

Therefore, I urge this Subcommittee to take a firm stand in helping the American farmer by taking prompt action to pass legislation as initially introduced (S. 1746/H.R. 7111) as the Farm Production Protection Act of 1977.

STATEMENT OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA

The Independent Bankers Association of America welcomes this opportunity to place in the record its views on S. 3029, the Farm Production Act of 1978, a bill which the Administration has proposed to provide farmers insurance against unforeseeable risks and consolidate existing programs related to failures of agricultural crops.

IBAA's interest in this legislation stems from the close relationship of the bulk of its member banks to customers engaged in agriculture. More than 80 percent of our banks are small, having less than \$25 million in assets and are located in towns with a population under 10,000. They are found in the middle third of the country comprising the major agricultural states. Our members are heavily involved in meeting the credit needs of agriculture as indicated by the fact that almost half the credit extended to agriculture in 1976 was supplied by banks with assets of \$25 million or less.

As a consequence, IBAA member banks are closely allied with the agricultural community and strive to provide credit to cover normal farm operating costs. In many areas, however, the risks confronting farmers from uncontrollable physical disasters place a lending institution in a totally unsecured position. Unless insurance is provided to indemnify such customers, or disaster payments are forthcoming, unsound credit situations will develop. As responsible lenders, we can only urge that a thorough examination be made of the problem in an effort to correct the unfortunate predicament facing agricultural producers in many parts of our country.

A recent survey of the attitude of our members toward the protection afforded farmers against crop losses by the current confusing and overlapping crop insurance and disaster loan programs revealed the need for a comprehensive reorganization of these programs. By an overwhelming majority the present crop disaster program was viewed as ineffective and poorly administered and should be replaced by a broadly based crop insurance program operated by the private sector. We, therefore, support the efforts of this Committee to construct a broad cost-effective crop insurance program for farmers to reduce the risks normally beyond their control. However, there are some provisions of S. 3029 which we believe require modification.

With respect to the types of risks the bill would cover, we believe the bill as presently written is broader than necessary. Such risks as hail, fire, lightning and windstorm are now covered by private insurance companies. Therefore, these risks and any others which are offered or can be offered by private companies should be excluded from the bill in the interest of encouraging the private sector to continue to broaden both their risk and geographic area coverage. It is generally agreed that the government must take the initiative to expand the risks covered by the bill, but the objective should be to provide incentives which would encourage the private sector to take over as many of these risks as feasible on the basis of actuarial experience. The private sector should be assured that the government would withdraw from coverage of the risks which the private sector assumes.

It is clear that the present crop insurance program has been too narrowly confined to a limited number of crops and counties to provide significant relief to affected farmers. The present program covers 20 crops in 1,522 counties which leaves half the counties and numerous crops without coverage. This would be expanded by S. 3029, although initially only 18 crops would be covered. The crop coverage proposed would, however, include two commodities, livestock and poultry, which are now insured by private insurance companies. Therefore, to be consistent with our position that the private sector is the preferred source of crop insurance, these commodities should be deleted from the bill.

The bill would provide production protection offered against loss of up to 90 percent of the cost of the product and, where deemed practicable, offer lower levels of protection to be selected at the option of each producer. According to the Department of Agriculture, three levels of protection would be offered on major crops with premiums higher for each level. Level A would cover 50 percent of total production costs; Level B, 70 percent of production costs; and Level C, 90 percent of production costs, including variable costs, some machinery and overhead costs, and part of the costs of land and management. In order to provide the broadest coverage at the lowest cost to the farmer, we believe that the level of coverage should not go above 70 percent of the cost of production. Too high a level of coverage would discourage efficient production by insuring profits. Furthermore, the controversy as to whether the basis of indemnification should be cost of production or actual yields per farm should be resolved by further study of the effect each basis would have on the premium costs of insurance to the producers.

S. 3029 proposes consolidation of the present disaster payment and crop insurance programs into a unified crop insurance plan. This would terminate the Disaster Payments Program, the Emergency Loan Program of the Farmers Home Administration and the Emergency Loan Program of the Small Business Administration. The primary purpose to be served by terminating low cost emergency loans to farmers appears to be to encourage expansion of producer participation which is needed to make the new insurance program financially viable. However, we favor continuing the low cost emergency loan program to farmers, at least for a sufficient period during which the transition is being made from the present hybrid disaster loan and limited insurance program to an all-crop, all-risk insurance program. Abandonment of the lost cost loan program would leave

a substantial segment of the farm community without any protection for a substantial period of time. Therefore, we recommend that the Farmers Home Administration and Small Business Administration emergency loan programs be continued until such time as the broadly based crop insurance program is capable of providing the protection obviating disaster loans. To improve these loan programs, much of the red tape and paperwork involved in their implementation could be reduced if commercial banks, such as those comprising our membership, which are closely associated with agricultural credit would be given a greater role in their implementation.

In recent testimony before the Senate Subcommittee on Agricultural Credit and Rural Electrification, we suggested the possibility of deputizing bankers in disaster stricken areas who are intimately aware of the backgrounds of many of the disaster victims and could provide prudent recommendations that would be invaluable to the federal government.

Under S. 3029, the Department of Agriculture proposes that the government would subsidize about 50 percent of the premium at the minimum level of protection and provide a small additional subsidy at the next higher level of protection. While the survey of our membership revealed that a majority opposed a subsidy, we are cognizant of the necessity to induce farmers to participate in the new crop insurance system in order to provide an adequate base for the success of the program. The objective, however, should be to achieve maximum economies of scale as the program gains experience with the savings in costs, bringing about a lowering of premiums and the ultimate phasing out of the subsidy.

Finally, we believe that the long-term objective of S. 3029 should be to encourage private industry to take over the entire crop insurance program. The bill in its present form makes no provision for the government to play a reinsurance role to encourage entry into higher risk crop insurance coverages. Other bills introduced in Congress have such provisions. The Helms bill (S. 3397), for example, authorizes the Farm Crop Insurance Corporation to enter into reinsurance arrangements with private sector underwriters. A similar provision should be added to S. 3029 with the necessary safeguards.

[The following material was submitted by Mr. Deardorff of the Wheat Growers Mutual Hail Insurance Co., see p. 40 for his oral presentation.]

COSTING OF FARM PRODUCTION PROTECTION ACT (FPPA)

ABSTRACT

An Ad Hoc Committee of Casualty Actuaries experienced in crop insurance ratemaking has analyzed the Farm Production Protection act. Since the act is very general and rates, coverages, and levels of subsidy would be at the discretion of the Commodity Credit Corporation, costing was based on presumed USDA intentions. We estimate the average annual federal cost of the act to be between \$812 million and \$1.137 billion, providing rates are proper, compared to USDA's estimate of \$542 million for the 18 initial crops. In addition, the federal costs in an adverse year such as 1977 could increase to in excess of \$2 billion for that year since the act does not provide for building up reserves in good years to fund adverse years. The costing does reflect that an estimated 32 percent of the eligible crop acreage would not be covered under the program due to nonparticipation.

If rates and guarantee levels are not set properly, federal costs would be higher than estimated. The possibility of inadequate rates appears to be likely because:

1. Rate relationships for the higher levels of protection are probably understated.

2. A provision for unforeseen losses (catastrophe losses) in the rates is not provided by the act and apparently will not be included in the ratemaking process.

3. Past record of the present Federal Crop program.

Inadequate rates could easily produce an additional \$350 million in annual Federal Cost to the above estimate.

Expansion of the program to additional crops and livestock as well as increases in subsidy levels would be at the discretion of the corporation (presumably without Congressional approval) and could have a tremendous effect on federal cost. As an extreme example, full subsidy (which is allowed by the act) of the 90 per-

cent level with 100 percent participation could produce average annual federal cost in excess of \$6 billion for just the 18 initial crops. Addition of livestock and other crops could more than double the protection under the program and presumably the cost of the program.

SUMMARY OF COSTING

The administration's proposed farm protection act greatly expands the role of the Federal government in crop insurance. Increased participation in federal crop insurance would be obtained by providing premium subsidies to farmers and expanding the role of commissioned insurance agents in selling Federal crop insurance. The administration projects an increase in the insured acreage from approximately the present FCIC level of 8 percent¹ to 68 percent within three years after the program is implemented. The USDA estimate of the federal cost of the new program is an annual average of \$542 million understood to consist of direct premium subsidies to farmers of \$395 million and estimated expenses of \$147 million based on 68 percent participation. Higher participation would, of course, increase the cost.

The committee has projected a minimum average annual federal cost of \$812 million, for the 18 crops initially covered. The estimate was based on presumed USDA intentions and past FCIC history and as such the costing does not consider the following which could easily increase federal cost by over \$325 million annually.

1. Ability of management to exercise underwriting discretion and/or cancellations appears to be limited if not removed from the new program.

2. A substantial number of counties or portions of counties in the United States are not now eligible for FCIC insurance due to the high risk nature of the area. Inclusion of these areas in a national program will certainly increase the federal cost over and above the estimate based on the FCIC statistics.

3. The anticipated increase in participation from 8 percent to 68 percent, in a short span of three years, may lead to unsound underwriting practices due to the large influx of inexperienced and untrained people in a short period of time.

4. With a large increase in the insured price per bushel, some farmers may have less incentive to maximize yield once the yield falls below the guarantee level.

5. The estimate does not include cost of prevented planting coverage which is presently covered by the disaster program.

6. The cost estimate does not reflect increases in production costs or inflation.

The \$812 million to \$1.137 billion estimated annual costs is an average and therefore the federal cost of any one year could be substantially higher. For example: based on FCIC loss ratio, a year such as 1977 would have produced federal cost in excess of \$2 billion for that year. This is in spite of the fact that 1977 was a near record production year.

Expenses

The FCIC budget for 1978 Fiscal year indicates approximately 32 cents in expenses for every dollar of premium or a 32 percent expense ratio.² The USDA assumed an expense ratio of 13.9 percent under the new program or a reduction of over 50 percent. Marketing costs alone, in our opinion will average at least 12½ percent of premiums (before subsidy) if a 68 percent market penetration is to be obtained.

As an attempt to project the expense costs under the new program, the committee analyzed property and casualty company expense ratios by size of company.³ This analysis indicated that after \$100 million of premium volume, the expense ratio as a percent of premium changed very little as the size of the company increased. However, the costing did assume that to the extent the increase in premium volume was due to higher protection levels, expenses would not increase in the same proportion as premium. In our opinion an expense ratio of approximately 26 percent is appropriate.

Indemnities

Estimated indemnities were based on 1948 through 1977 FCIC⁴ loss experience applied to production based on 1977 planted acres.⁵ FCIC experience, assuming

¹ "Protecting the Farmer Against Natural Hazards: Issues and Options" Congressional Budget Office.

² FCIC Budget for Fiscal 1979.

³ Source: 1977 Best's Aggregates and Averages.

⁴ FCIC 1977 Annual Report.

⁵ "Crop Production—1977 Annual Summary" U.S. Department of Agriculture.

an average 60 percent level of coverage, was adjusted for the proposed protection levels of 50 percent, 70 percent, and 90 percent by developing a model based on accepted statistical procedures. Results of a study reported in the "Task Force 70" report (a study of FCIC operations) produced similar results. Our analysis indicated that the FPPA rate relationships for the various protection levels significantly understates the rates (therefore the cost) for the higher levels of protection.

The model rate relationships may even be understated since it does not consider, among other things, adverse selection. For example; yield guarantees cannot be set precisely and in many cases a 90 percent guarantee may be in excess of the farmers actual average yield. Certainly, these farmers will tend to purchase the higher protection levels; particularly the 90 percent level. In fact, a 90 percent protection level may not be insurable at any price.

Level of subsidy

Since the levels of subsidy are not specified in the act, costing was based on inferred USDA intent. Subsidy and therefore federal cost could be increased by the corporation presumably without congressional review. As one illustration of the unusual degree of flexibility contained in the administration bill, subsidy could be increased to 100 percent of the 90 percent protection level which would produce average federal cost in excess of \$6 billion annually for the 18 crops.

Participation levels

USDA costing assumed that 38 percent of farmers would purchase the 50 percent level, 24 percent at 70 percent and 6 percent at the 90 percent level for a total of 68 percent. No data is available to support any other assumption and the same distribution was used in our costing. To illustrate the effect of changing the distribution assume that the 68 percent participation were divided equally among the three protection levels. The increase in federal cost would be approximately 20 percent.

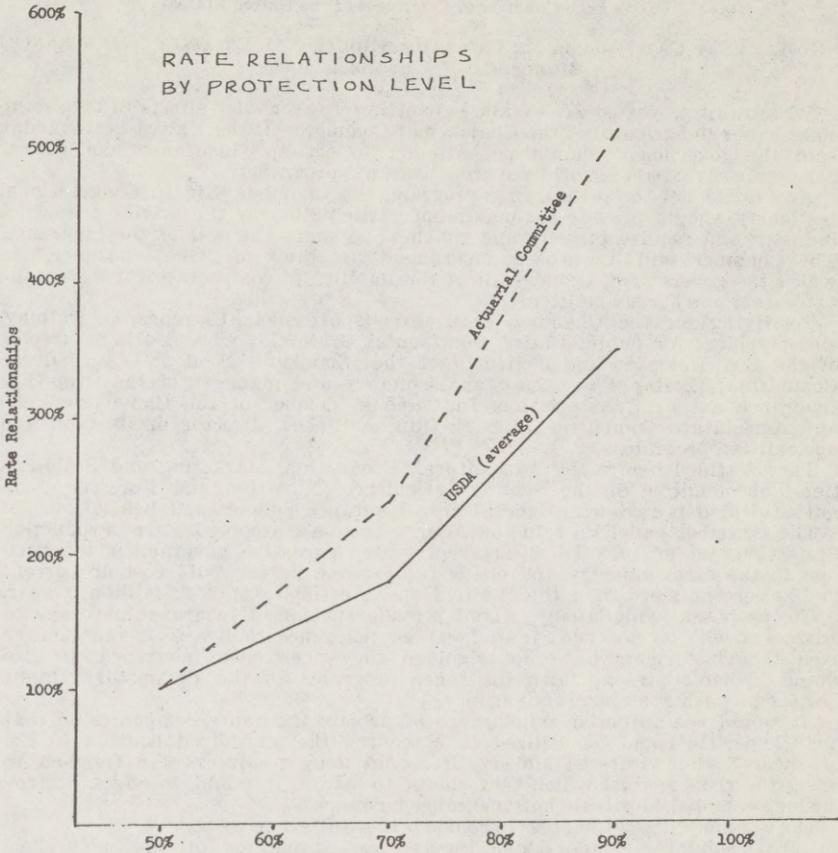
Rate adequacy

The projected federal cost of \$812 million to \$1.137 billion assumes rates are set on an actuarially sound basis with sound underwriting principles in setting individual guarantee levels. Traditionally, FCIC has strived for a 90 percent loss ratio. The 10 percent margin was to provide a reserve for unforeseen losses since the number of years of experience available for ratemaking does not reflect a full cycle of weather hazards. The past 30 years of data does not include the worst possible weather and as such would not reflect the full realm of possibilities. Rates based on this experience, for example, would not include the possibility of a repeat of the dust bowl days of the thirty's. A reserve for possible future occurrence of this type is certainly needed and in fact, 10 percent may not be adequate for all risk crop insurance.

It appears that the new act does not provide for a reserve for unforeseen losses to be included in the rates. In our opinion, this reserve is necessary if the program is to be on an actuarially sound basis. Ultimately, lack of this reserve in the rating could produce additional federal cost of \$150 million annually.

As mentioned earlier, rates for the higher levels of protection may be seriously understated. Not only would this cause rate adequacy problems but would also produce higher participation at the high levels of protection than assumed.

The actual FCIC 1948-1977 loss ratio was 103 percent compared to the target loss ratio of 90 percent or a 13 percent difference. If future rates are inadequate to the same degree, federal cost could be an additional \$200 million higher annually.



Financial disclosure

The act specifies that FCIC would be absorbed by the Commodity Credit Corporation. Apparently the insurance operation would be funded on a year to year basis. The act contains no provision to provide a reserve from good years to absorb losses from years in which indemnities exceed premium. Also, it is not clear as to the degree of maintaining separate financial records for the insurance operations. If a sound insurance operation is desired and accountability is to be maintained, the financial results must be separated from other USDA programs and reserves should be accumulated to reduce year to year variations in federal cost.

Expansion

As mentioned in the summary, an expansion of the program through (1) an increase in the subsidy level or (2) inclusion of additional crops and livestock could have a tremendous effect on federal cost. Increase to 100 percent subsidy could increase average federal cost to in excess of \$6 billion. Addition of livestock and other crops could more than double the protection under the program and presumably the cost of the program.

[News from Chamber of Commerce of the United States]

GOVERNMENT CROP INSURANCE PROGRAMS SHOULD NOT ESTABLISH "INSURANCE MONOPOLIES," CHAMBER HOLDS

WASHINGTON, August 17.—While supporting "reasonable" efforts to help minimize losses to agriculture, the Chamber of Commerce of the United States today said the government should not attempt to set up "insurance monopolies" consisting of taxpayer-subsidized crop insurance programs.

Any broad new crop insurance program, the Chamber said in Congressional testimony, should provide for maximum participation by the private insurance industry and require farmers and ranchers to share the cost of the insurance. The Chamber said it opposed government programs of "free insurance," in which the government assumes all of the liability to compensate for losses due to weather and other conditions.

Testifying for the Chamber were three spokesmen: Clarence D. Palmby, vice president for public affairs, Continental Grain Co., who also is a director of the U.S. Chamber and chairman of the Chamber's Food and Agriculture Committee; E. Ray Fosse, assistant secretary and manager of the Crop-Hail Insurance Actuarial Association, Inc., and a member of the Chamber's Food and Agriculture Committee; and E. Clinton Stokes, director of its food and agricultural programs.

They testified before the Agricultural, Production, Marketing and Stabilization Subcommittee of the Senate Agriculture, Nutrition and Forestry Committee, which is reviewing federal crop insurance policies and legislation.

The Chamber panelists said the Administration's proposed Farm Production Protection Act of 1978 (S. 3029) represented excessive government intervention in the farm industry and cited studies showing it would cost 50 percent to 100 percent more than the White House's estimate of \$542 million a year.

The proposal, said Palmby, would provide subsidized insurance coverage to producers who do not need it and extend insurance to livestock and poultry even though farmers have not signified they need such insurance. It also would transfer present farm insurance programs to the Commodity Credit Corp., which is not an insurance agency.

"It would not authorize reinsurance of private insurance companies so that their expertise could be utilized in extending the subsidized benefits to the producers," the witnesses added. "It would deny producers the freedom to select the risks against which they choose to insure. It would, in effect, destroy the long-established private hail insurance business."

The Chamber urged Congress to consider these alternatives:

Consolidate all federal disaster assistance programs into one comprehensive, all-risk insurance program with authority for reinsurance to permit marketing of the program through the private insurance industry; or

Limit the government's insurance program to strictly subsidized disaster assistance to farmers suffering catastrophic losses from perils other than those traditionally provided by private insurance companies.

The Chamber is opposed to permanent establishment of governmentally created insurance monopolies, the subcommittee was told. The witnesses added: "Only when the nature of the hazards involved, or the provisions of the program prescribed by Congress, are such that private insurance companies are unable to provide the coverage on an actuarially sound basis should governmental assistance be considered. Even in such instances, the services and facilities of private insurers should be used to the maximum."

The Chamber said the Federal Crop Insurance Corporation was set up many years ago to experiment with the idea of providing a sound system of all-risk crop insurance. Its experience has demonstrated that neither the government nor private industry can alone sustain such a system at rates that most farmers can afford. Only 15 percent of producers currently are participating in such programs, since many producers are not interested in protection from some perils that do not exist in all parts of the country.

STATEMENT OF AMERICAN BANKERS ASSOCIATION

Mr. Chairman and members of the Committee, I am Charles N. Finson, President, National Bank of Monticello, Illinois, and Vice Chairman of the American Bankers Association's (ABA) Agricultural Bankers Division. My bank has \$35

million in assets and is in a predominantly agricultural community of 5,000 people. The ABA is a trade association whose membership is composed of more than 92 percent of the nation's 14,383 full service banks.

I appreciate this opportunity to present the Association's views on a number of issues and provisions related to the proposed crop insurance bills, S. 3029 and others. The number of bills that have been introduced demonstrate a broadly based interest in offering farmers a reasonable means of insuring against unforeseeable risks in agricultural production and at the same time unravel the confusing and overlapping current government disaster programs.

Banks are deeply interested in the agricultural sector, so much so that banks hold over \$33 billion of farm debts. Two-thirds of the nation's full service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60 percent of these community banks listed agriculture as the single most important source of income for their communities.

The current Federal Crop Insurance program is based on the Agricultural Adjustment Act of 1938. The original law provided for insurance on wheat only. The Act was amended in 1942 to include insurance of cotton and again in 1945 to extend coverage to flax. From 1947 to 1964, several additional provisions were made for continued expansion. However, not only was the insurance coverage restricted to a few commodities, but it was geographically set up to cover a maximum of 150 counties.

The original Act set up in general terms the plan of insurance, providing the Federal Crop Insurance Corporation (FCIC) authority to insure crops against unavoidable losses. Thus, it authorized essentially "all-risk" crop insurance. Through the years, other crops and more counties have been added gradually so that today 20 crops are covered in 1,522 counties. Nonetheless, this still leaves half of the counties in the United States and numerous crops without coverage under the program.

It is in the national interest to strive for a more stabilized agricultural income. Broad participation by producers in a crop insurance program is one important means of minimizing those risks which are beyond the control of every farmer. As bankers, we can speak most directly of the importance of insurance to the preservation of capital resources. Today the family size farm requires large capital investments and substantial amounts annually for expenses—much of which is borrowed money. Crop insurance improves the farmer's credit position because he can offer it as additional security and use it to pay off the loan if the crop fails. This is particularly important for young and highly leveraged borrowers as well as those operating in high-risk areas.

We believe the present disaster and crop insurance programs, which have evolved over time, are inequitable and inadequate. We commend and support the efforts of this Committee to make possible a broad cost-effective crop insurance program for farmers to use in their risk management efforts. We believe the following principal considerations should be paramount in establishing public policy for an expanded crop insurance program:

Provide for a comprehensive crop insurance program that will include broad crop and area coverage.

Provide for maximum use of the private sector (insurance companies and agents) as long as it is cost effective.

Allow for voluntary participation by farmers.

Allow premiums to be set on a sound actuarial basis and cover costs of administration.

Minimize government's role with major focus on achieving an effective transition from present multiple disaster offerings to one unified program, and to cover catastrophic losses.

Allow for the insuring of different levels of loss including out-of-pocket and machinery costs but not to cover a return on land and management or in any way to insure a profit, thereby removing the incentive to produce efficiently.

Provide for a program, which determines premium rates and indemnity levels based on individual farm yields and cost experiences.

I would like to outline ABA's views within the context of the following five major areas:

1. Extent of coverage.
2. Level of coverage.
3. Consolidation of four existing federal disaster assistance programs.
4. Level of participation of the private insurance industry.
5. Federal funding and the issue of reinsurance.

I. EXTENT OF COVERAGE

We endorse the provision which expands crop insurance offerings so that farmers in all areas of the country can voluntarily purchase, on a cost basis relative to the risk on their individual farm, insurance on all types of risks. However, we believe when such insurance can be offered by the private sector, the government should not interfere. This might be true in the case of hail, fire and lightning coverage which is being extensively provided by private insurance companies. We suggest that such coverage be considered for exclusion from the proposed government insurance program.

The goals and aspirations reflected in the Agricultural Adjustment Act are commendable, but changes in farming practice and particularly costs of operation have created a need for a more comprehensive program. Examination of the current program covering crop losses reveals many inadequacies. First of all, the current law mandates that FCIC shall refuse insurance to any county, any area within a county, or even to an individual farm where the risk is assessed to be too high. Secondly, the very high cost of the premiums, in many cases, discourages participation. Such is the case because, to be covered a crop must be of major economic value to a county and the county must not be a high risk area. Even where the insurance program is available, the coverage provided in relation to costs is not high enough to entice large numbers of farmers to participate in the program. The result is that current federal crop insurance participation covers only 13 to 17 percent of all eligible acres in the U.S. which might suggest farmer dissatisfaction with the program. Federal crop insurance is not available in all agricultural counties; nor does it cover all basic commodities in the counties where insurance is available.

There is general agreement that the current efforts to alleviate the impact of natural crop disasters are cumbersome, duplicative, inequitable, and ineffective. The need to expand and to modify the present crop insurance program has for some time been apparent to many interested and affected parties; farmers, insurance companies, creditors, bankers, and the public at large. Federal crop insurance has, to date, been too small to be really effective in providing substantial relief to the agricultural economy when large scale disasters, such as drought occur. It will be important with the discontinuance of disaster assistance programs for crop insurance to be available to all farmers.

II. LEVEL OF COVERAGE

Consistent and widespread participation is essential for the crop insurance program to have any significant stabilizing effect on the nation's agricultural economy in the event of widespread crop failure. Although the number of insured varies among crops, counties, and states, the program has not attained a high degree of national acceptance and participation from agricultural producers. It seems that farmers do not buy crop insurance mainly because the guarantees are too low and/or the premiums are too high. During 1974, production costs for the five crops covered by the direct payments program ranged from \$89 to \$283 an acre. FCIC's per acre guarantee for these crops ranged from 25 to 37 percent of total production costs.

An insurance plan offering personalized (individual farm) rates and guarantees would be more equitable because both the production guarantee and the premium could be derived from the insured's actual yield and cost history. Because the plan would be more equitable, producer participation should increase, thus more effectively stabilizing the agricultural economy in the event of a widespread crop failure. Individual or personalized insurance is also actuarially sound, therefore, it should have a favorable effect on the program's financial operations.

We strongly recommend a plan providing more personalized rates and guarantees that would be more equitable and attractive to producers and should therefore increase program participation.

The Association feels that the level of coverage should not exceed cost of production. Higher levels would guarantee profits, discouraging the farmers from producing efficiently. S. 3029 offers three levels of protection:

Level A—representing about 50 percent of production costs, covers variable costs.

Level B—representing about 70 percent of production costs, covers variable costs plus machinery and overhead.

Level C—representing about 90 percent of production costs, covers variable costs, machinery and overhead, and part of the costs of land and management.

Coverage should be made available at different levels up to a maximum of out-of-pocket costs plus machinery ownership cost. In this regard, the Association endorses coverage A and coverage B only.

III. CONSOLIDATION OF THE 4 EXISTING DISASTER ASSISTANCE PROGRAMS

The lack of uniform natural disaster assistance has produced a series of programs. Today there are basically four types of disaster programs: (1) the Federal Crop Insurance Program; (2) Disaster Payments Program (DPP); (3) Emergency Loan Program of the Farmers Home Administration (FmHA); and (4) Emergency Loan Program of Small Business Administration (SBA). S. 3029 has proposed replacing these four separate and overlapping federal programs by one single insurance program. We support folding the present disaster payment and federal crop insurance programs into a unified crop insurance plan. However, we recommend against including the emergency credit programs of the FmHA and SBA at this time. There is a distinction between disaster payments and credit programs. The FmHA and SBA credit plans should be continued until the new crop insurance scheme proves it can perform adequately in assisting farmers with crop losses.

The DPP, first implemented in 1974, is the most costly of the present programs—\$450 million annually. In 1977 alone, even the limited DPP cost the Government in excess of one-half of a billion dollars. The program is inequitable in benefits to producers. When you consider that the subsidized benefits of the DPP apply only to those crops which are eligible for deficiency payments and price support loans (wheat, feed grains, cotton, and rice), providing subsidized insurance in addition, it hardly seems fair to the producers of other products.

The FmHA and SBA disaster loan programs have been developed to help farmers, through credit arrangements requiring repayment, overcome adverse effects of crop losses. There is some overlapping in these programs and they often involve too much red tape in their implementation. We are working with these agencies to make these programs more effective. Hopefully, through a successful crop insurance effort the need for these credit programs will diminish. However, until it has been proven that a new comprehensive crop insurance program can fully handle the needs arising from disasters, the Association opposes their elimination.

IV. LEVEL OF PARTICIPATION OF THE PRIVATE INSURANCE INDUSTRY

There are more than two hundred privately owned insurance companies that are competing vigorously to satisfy certain crop insurance needs of American farmers. However, several bills now pending in Congress would pre-empt the private industry. The Association recommends that the private insurance industry be used to the fullest possible extent for funding, marketing, and claim settlement. We especially endorse the idea of making immediate maximum use of the private insurance sector in marketing since an extensive local private agency operation is already in existence. Their experience in sales, and more importantly, in claims administration would certainly provide an invaluable asset when used co-operatively with government agencies. The private insurance industry's use and involvement in the program should eliminate the need for growth in the personnel requirements of the existing federal agencies with the administration of a new program.

We suggest that the government continue discussions with the private insurance industry to design a program whereby the private sector could offer a major portion of the crop insurance.

V. FEDERAL FUNDING AND THE ISSUE OF "REINSURANCE"

Although the Association supports the concept of a privately funded comprehensive insurance program, we do not believe the insurance industry is presently prepared to do so. Therefore, we feel that the government must assume a principal role in funding the all-risk program with a long term objective of reverting to a reinsurance role once the private industry comes forth with a workable plan. We also feel it is appropriate and necessary for the government to subsidize premiums using funds now employed through FCIC and the disaster assistance programs to make the insurance cost effective.

CONCLUSION

As active participants in the rural economy, the agricultural bankers offer our continued support and cooperation. We enthusiastically support the development of a meaningful broad, crop insurance plan which will help reduce risk and stabilize the agricultural industry. We suggest that every effort be made to accomplish this by folding the appropriate existing disaster assistance programs into the new insurance plan and maximizing the use of the private sector.

The ABA is grateful for the opportunity to express its views. We would be pleased to respond to questions.

[News from the National Crop Insurance Association]

FEDERAL CROP PROPOSAL COSTLY TO TAXPAYERS

WASHINGTON, D.C., August 17.—An Administration proposal to offer heavily-subsidized, all-risk crop insurance is “the latch key for nationalizing the private crop-hail insurance industry” at the taxpayers’ expense, a prominent insurance executive told Congress today.

Testifying before the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, O. L. Deardorff, president of Wheat Growers Mutual Hail Insurance Company, predicted that the Farm Production Protection Act would cost between \$810 million and \$1.137 billion annually—almost twice the cost estimated by the Department of Agriculture.

“We believe there is no justification for the taxpayers to subsidize the cost of crop insurance any more than the cost of the farmers’ other insurance needs which are a legitimate cost of doing business and a deductible item for income tax purposes,” said Mr. Deardorff, who also is chairman of the all-industry National Crop Insurance Council.

He noted that private crop insurers now provide more than \$10 billion in insurance for crops against losses from hail, fire and lightning. There are more than 200 companies and more than 30,000 agents currently selling crop-hail insurance.

With this system already in place, and with “proper reinsurance provided by the government, the private industry could, under acceptable conditions . . . extend the availability of all-risk crop insurance to all who are interested.”

The federal plan has other failings in addition to its potential cost, Mr. Deardorff said. First, it would transfer responsibility from the Federal Crop Insurance Corporation (FCIC) to a non-insurance agency. Second, it contains the threat of regimentation, i.e. requiring farmers to participate in order to receive other benefits. Third, it would displace thousands of insurance company employees and agents without compensation. Fourth, it goes way beyond the demonstrated needs of farmers. Fifth, its overly generous subsidies would destroy the crop-hail business “without even a redeeming greater purpose such as the general welfare.”

Instead, Congress should eliminate from FCIC the hail and fire coverages and insurance on harvested crops; retain FCIC and allow its territorial expansion; provide realistic reinsurance, and extend disaster payments to allow time for implementing insurance alternatives. Also, FCIC should include all direct and indirect costs in crop insurance rating.

“For more than 60 years we have successfully and to the satisfaction of farmers provided this coverage throughout the nation. We see it as neither right nor necessary for the successful, taxpaying enterprise to be destroyed or threatened by any government program,” Mr. Deardorff said.

1 loss because of natural or uncontrollable conditions adversely
2 affecting production and to provide the means for the re-
3 search and experience helpful in devising and establishing
4 such production protection.

5 FARM PRODUCTION PROTECTION

6 SEC. 3. To carry out the purpose of this Act, the Com-
7 modity Credit Corporation (hereinafter referred to as "the
8 Corporation") is authorized and empowered—

9 (a) Commencing with farm production for 1980, for
10 the purpose of determining the most practical plan,
11 terms, and conditions of protection for agricultural pro-
12 duction, if sufficient actuarial data are available as de-
13 termined by the Corporation, to protect producers of
14 agricultural products under any plan or plans of protec-
15 tion determined by the Corporation to be adapted to
16 any such product. Such protection shall be against losses
17 due to unavoidable or natural causes, or both, including,
18 but not limited to, drought, flood, hail, frost, wind, win-
19 terkill, lightning, fire, excessive rain, snow, wildlife,
20 hurricane, tornado, insect infestation, animal disease,
21 plant disease, and such other unavoidable or natural
22 causes, or both, as determined by the Corporation.
23 Production protection offered against loss may cover
24 up to 90 per centum of the cost of production of the prod-
25 uct for a representative period subject to such adjust-

1 ments as the Corporation may prescribe, to the end that
2 the average cost fixed for farms in the same area, which
3 are subject to the same conditions, be equitable between
4 producers. In addition, the Corporation may offer where
5 deemed practicable lower levels of protection to be se-
6 lected at the option of each producer. Production protec-
7 tion provided under this subsection shall not cover
8 losses due to the neglect or malfeasance of the producer,
9 or to the failure of the producer to follow established
10 good farming practices and appropriate conservation
11 practices. In determining the products on which such
12 protection is to be offered, the Corporation shall take
13 into consideration the demands of farmers for such pro-
14 duction protection, and the extent to which such produc-
15 tion protection is available to commercial producers.
16 The Corporation may refuse production protection in
17 any county or area or on any farm not suited to the
18 production of such product. Production protection may
19 be offered to producer-owner and producer-controlled
20 cooperative associations on commodities if the man-
21 agerial control over the commodity insured is exercised
22 by such association. The Corporation shall report an-
23 nually to Congress the results of its operations as to
24 each product protected.

25 (b) To determine the true risk premium which

1 would be chargeable to each participant in this program
2 based on a sound actuarial base.

3 (c) To determine that share of the true risk pre-
4 mium which shall be borne by the Corporation.

5 (d) To adjust and pay claims for losses, under
6 rules prescribed by the Corporation. In the event that
7 any claim for indemnity under the provisions of this Act
8 is denied by the Corporation, an action on such claim
9 may be brought against the Corporation under the pro-
10 visions of section 4 (c) of the Commodity Credit Corpo-
11 ration Charter Act: *Provided*, That no suit on such
12 claim shall be allowed under this section unless the same
13 shall have been brought within one year after the date
14 when notice of denial of the claim is mailed to and
15 received by the claimant.

16 (e) To issue contracts and regulations, the terms
17 and provisions of which are binding on the contractual
18 parties thereto.

19 (f) To compromise claims brought by and against
20 the Corporation.

21 (g) To collect and receive insurance premiums and
22 expend such premiums for payments of indemnities and
23 for such other purposes consistent with this Act as de-
24 termined by the Corporation.

25 (h) To conduct research, surveys, and investiga-

1 tions relating to farm production protection and to assem-
2 ble data for the purpose of establishing actuarial bases
3 for farm production protection.

4 (i) Under such terms and conditions as the Corpo-
5 ration deems consistent with sound reinsurance princi-
6 ples, to provide reinsurance on any products or planta-
7 tion insurance provided in the Commonwealth of Puerto
8 Rico, the Canal Zone, Guam, American Samoa, the
9 United States Virgin Islands, and the Commonwealth
10 of the Northern Marianas by a duly authorized agency
11 of such Commonwealth or Territory: *Provided*, That no
12 application for reinsurance authorized herein shall be
13 approved, unless the Corporation shall have determined
14 that the reinsurance deemed necessary is not available
15 from recognized private sources at reasonable cost.

16 (j) to offer specific risk protection programs such
17 as, but not limited to, prevented planting, wildlife dep-
18 redation, and disease and insect infestation programs,
19 under such terms and conditions as the Corporation may
20 determine.

21 INDEMNITIES EXEMPT FROM LEVY

22 SEC. 4. Claims for indemnities under this Act shall not be
23 liable to attachment, levy, garnishment, or any other legal
24 process before payment to the insured or to deduction on
25 account of the indebtedness of the insured or his estate to the

1 United States except claims of the United States or the Cor-
2 poration arising under this Act.

3 VOIDING OF CONTRACTS

4 SEC. 5. The Corporation may void the farm production
5 protection provided any producer without affecting the pro-
6 ducer's liability for premiums or waiving any right of the
7 Corporation to collect any unpaid premiums if at any time,
8 either before or after any loss, the insured has concealed or
9 misrepresented any material fact or committed any fraud
10 relating to the contract, and such voidance shall be effective
11 as of the beginning of the production year with respect to the
12 product on which any such act or omission occurred.

13 ADVISORY COMMITTEE

14 SEC. 6. The Secretary of Agriculture (hereinafter re-
15 ferred to as the "Secretary") is authorized pursuant to the
16 Federal Advisory Committee Act to appoint an advisory com-
17 mittee consisting of members experienced in agricultural
18 pursuits or insurance in keeping with the development of
19 protection programs. The compensation of the members of
20 such committee shall be determined by the Secretary but
21 shall not exceed the daily equivalent of the rate prescribed
22 for grade GS-18 in section 5332 of title 5, United States
23 Code, while actually employed and actual necessary traveling
24 and subsistence expenses, or a per diem allowance in lieu of

1 Corporation pursuant to subsection (a) of section 3 of this
2 Act, or any one or more of such products, as the context may
3 indicate.

4 (b) "Cost of production" means variable, machinery
5 ownership, and general farm overhead costs plus a charge for
6 management and a charge for land as determined by the
7 Corporation for a given area or county.

8 (c) "General farm overhead" includes costs for record-
9 keeping, utilities, general farm maintenance, personal prop-
10 erty taxes, sales taxes, insurance, and similar items not spe-
11 cifically associated with a specific crop enterprise. Overhead
12 costs are to be allocated to specific crops on the basis of the
13 proportion of the value of total production derived from each
14 crop.

15 (d) "Land charges" are to be calculated at a percentage
16 (determined by the Corporation) of the current average
17 price or average rental of land for agricultural purposes.

18 (e) "Machinery ownership" costs include charges for
19 replacement, interest, insurance, and taxes.

20 (f) "Management charges" are to be allocated to
21 products on the basis of the proportion of the value of total
22 production derived from each product.

23 (g) "Production protection" means protection of pro-
24 ducers against loss of the cost of production of products.

1 (h) "True risk" is the anticipated amount of loss for a
2 given protection plan.

3 (i) "Protection plan" is the protection option selected
4 by the insured.

5 INDEMNITIES EXEMPT FROM INTEREST

6 SEC. 10. Notwithstanding any other provisions of this
7 Act, the Corporation shall not be liable or obligated to pay
8 interest on payments or claims for indemnity authorized
9 under this Act.

10 FINALITY PROVISION

11 SEC. 11. The facts constituting the basis for any pay-
12 ment under this Act, or the amount thereof, when officially
13 determined in conformity with the applicable regulations
14 prescribed by the Secretary or by the Corporation, shall be
15 final and conclusive and shall not be reviewable by any other
16 officer or agency of the Government. In case any person
17 who is entitled to any such payment dies, becomes incom-
18 petent, or disappears before receiving such payment, or is
19 succeeded by another who renders or completes the required
20 performance, the payment shall, without regard to any other
21 provision of law, be made as the Corporation may determine
22 to be fair and reasonable in all the circumstances, as provided
23 by regulations.

1 APPLICATION TO OTHER GOVERNMENTAL PROGRAMS

2 SEC. 12. Notwithstanding any other provision of law,
3 no person shall be eligible to receive low yield disaster
4 payments, emergency loans and payments, indemnity pay-
5 ments, or specific risk protection payments for production
6 losses under any other program for any agricultural product
7 in any county of any State when, under provisions of this
8 Act, product production protection is generally offered for
9 such agricultural product in such county and State.

10 PERSONS UNDER EIGHTEEN YEARS OF AGE

11 SEC. 13. Notwithstanding any other provision of law, no
12 person shall be denied insurance under this Act solely on the
13 ground that he or she is under eighteen years of age if such
14 person (1) has a bona fide interest in a crop as an owner-
15 operator, landlord, tenant, or sharecropper, and (2) has a
16 comaker for the contract of insurance executed: *Provided,*
17 That any such person who enters into a farm production pro-
18 tection contract shall be subject to the same legal liability and
19 have the same legal rights with respect to such contract as
20 any person over the age of eighteen years.

21 TRANSFERS OF ASSETS OF FEDERAL CROP INSURANCE

22 CORPORATION

23 SEC. 14. The assets, funds, appropriations, property,
24 records, and policyholders of the Federal Crop Insurance
25 Corporation shall be transferred to the Commodity Credit

1 Corporation at such times as the Secretary shall direct. The
2 rights, regulations, privileges, and powers, and the duties
3 and liabilities of the Federal Crop Insurance Corporation,
4 in respect to any contract, agreement, loan, account, or other
5 obligation, shall become the rights, privileges, and powers,
6 and the duties and liabilities, respectively, of the Commodity
7 Credit Corporation. The provisions of the Federal Crop
8 Insurance Act which are relevant to current regulations of
9 the Secretary and the Federal Crop Insurance Corporation
10 governing the program operation of the Federal Crop In-
11 surance Corporation shall remain in effect until such regula-
12 tions are revoked, superseded, amended, or modified by reg-
13 ulations issued pursuant to this Act. The enforceable claims
14 of or against the Federal Crop Insurance Corporation shall
15 become the claims of or against, and may be enforced by or
16 against, the Commodity Credit Corporation: *Provided*, That
17 nothing in this Act shall limit or extend any period of limita-
18 tion otherwise applicable to such claims against the Com-
19 modity Credit Corporation.

20 OPERATING FUNCTION

21 SEC. 15. Program development, actuarial, loss adjust-
22 ment, and such other functions related to the purposes of this
23 Act as may be assigned by the Corporation, shall be con-
24 ducted by a discrete organizational unit which shall have no

1 duties or functions not authorized by this Act, and which
2 shall be managed by the member of the Board of Directors
3 of the Corporation designated as manager of the insurance
4 program.

5 DISSOLUTION OF FEDERAL CROP INSURANCE CORPORATION

6 SEC. 16. The Secretary, representing the United States
7 as the sole owner of the capital stock of the Federal Crop
8 Insurance Corporation, is hereby authorized and directed to
9 institute or cause to be instituted such proceedings as are
10 required for the dissolution of such Corporation under United
11 States law at such time as he deems it appropriate. The cost
12 of such dissolution shall be borne by the Commodity Credit
13 Corporation.

14 REPEAL OF THE FEDERAL CROP INSURANCE ACT

15 SEC. 17. Except as provided in section 14 of this Act,
16 title V of the Agricultural Adjustment Act of 1938 (52
17 Stat. 72) (known as the Federal Crop Insurance Act) is
18 hereby repealed effective December 31, 1982.

19 AMENDMENTS TO CHARTER ACT

20 SEC. 18. (a) Section 9 (a) of the Commodity Credit
21 Corporation Charter Act is amended by striking "seven" and
22 inserting "eight" in lieu thereof.

1 (b) Section 10 of the Commodity Credit Corporation
2 Charter Act is amended by adding to the second sentence
3 after the word "experts" the words "personnel paid by the
4 hour, day, or month when actually employed, county repre-
5 sentatives and private insurance agents and companies".



