PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Crop insurers react to FSA employees' proposal

The American Association of Crop Insurers (AACI) was quick to respond to the proposal by Farm Service Agency personnel that they could take over one or more of the functions now carried out by the private crop insurance sector and reduce government costs by as much as $2.5 billion a year—we summarized this proposal in the previous column. In a position paper posted on their website, AACI argues that, with regard to Federal crop insurance, the division of labor between the private and public sectors should remain as it currently is (http://www.cropinsurers.com/AACI%20 2012%20Farm%20Bill%20Position.pdf). Quotations in the following paragraphs come from that document.

Their first argument is that they have already taken on $12 billion in cuts over the ten year period, beginning with the 2011 crop year. They point out that "Congress…made about $6 billion in cuts for program delivery as part of the 2008 Farm Bill." Then last year as part of the every five-year renegotiation of the Standard Reinsurance Agreement (SRA), they were cut an additional $6 billion, with $4 billion going to deficit reduction and the balance funding other activities.

AACI contends that "any further budget cuts before the private sector delivery industry has a chance to absorb these $12 billion in reductions will risk undermining the stability and viability of the crop insurance program." In addition, they assert "in five years, the necessary data may be available to complete a thorough analysis of the impact of the 2008 Farm Bill and the 2011 SRA."

"Secondly, AACI urges Congress to reject all proposals for expanding the role of government and reducing private sector jobs by returning any part of the Federal crop insurance program's delivery to any government agency and, thereby, continue the current public/private partnership, which is functioning well." ACCI's big argument is that "private companies and agencies have the built-in incentive and ingenuity to provide the service farmers, ranchers and growers need and depend on in making risk management decisions in using the Federal crop insurance program."

They point to a Risk Management Agency (RMA) study that shows that the error rate in insurance payments over the last seven years has been "around 5 percent" compared to a rate of 15 to 20 percent for the private Property and Casualty Insurance Industry.

ACCI also asserts that historically "the government's experience in selling and servicing crop insurance policies has not compared very well at all to that of the private sector." When given a choice they argue that farmers have preferred the services provided by private industry over those provided by government employees. To back up their argument they point to a "1989 Arthur Andersen study [that the] reported government cost was more than twice that of the private sector."

The issue of training FSA employees to take over the selling and servicing activities would cost millions of dollars in addition to the costs required to set up the "necessary information handling and processing systems" that are needed to make the system work to the benefit of farmers and ranchers.

In justifying their rejection of the idea of a government takeover of the Federal crop insurance program, ACCI points out the importance of crop insurance to the ability of farmers to obtain bank financing.

Their final two points deal more with the need to expand crop insurance to include more crops and the hope that Congress would "incorporate the delivery of any supplemental agricultural assistance program with the delivery of the Federal crop insurance program by the private sector."

ACCI writes, "clearly, the Federal government has an important role to play in the effective functioning of this important risk management program, but equally clearly, this role is not in selling and servicing policies or adjusting claims. Each partner in the current public/private partnership is equipped with characteristics that make it well suited for its current role. The current division of responsibilities is how the Federal crop insurance program should continue to operate."

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