

February 24, 2010

The Honorable James W. Miller  
Farm and Foreign Agriculture Services  
United States Department of Agriculture  
Jamie Whitten Building, Room 205-E  
14th & Independence Ave., SW  
Washington, DC 20250

Administrator William Murphy  
Risk Management Agency  
United States Department of Agriculture  
1400 Independence Ave., SW, Room 6092-S  
Washington, DC 20250-0801

**RE: Proposed Second Draft of the Standard Reinsurance Agreement**

Under Secretary Miller and Administrator Murphy,

On behalf of the approximately 18,000 agents who work every day to ensure that our nation's farmers and ranchers are receiving the best services through the federal crop insurance program, we are writing to express extreme disappointment and opposition to provisions in the proposed second draft of the Standard Reinsurance Agreement (SRA). Generally, the sheer amount of financial resources the Risk Management Agency (RMA) seeks to remove from the program will have a compromising and destabilizing effect on the program and its intended beneficiaries – farmers and ranchers. We do not believe this is a prudent action in light of the current economic crisis, especially in rural America.

Specifically, it has come to our attention that RMA has set an arbitrary cap on commissions that go to small businesses participating in the delivery of the program. This cap would remove the essential aspects of competition and service incentives that are vital to the program. We understand the need to periodically revisit federal programs over time and believe there are certain aspects of the proposed SRA that will benefit the program. However, we believe your proposals to drastically cut the program and to constrain the abilities of rural small businesses will have potentially devastating, although perhaps unintended, consequences to the crop insurance program and to rural America in a number of areas.

RMA has stated one of its SRA objectives is to reach more underserved areas. The proposals do the opposite. With less ability to earn varying commission levels, agents will be deterred from writing policies in high risk areas of the country. In addition, limiting marketplace competition for agents who provide the best services to farmers and ranchers will result in a decline in service provided, as well as lead companies to set a standard commission rate.

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This directly conflicts with Congressional intent and with the best interest of the program. From 1938 to 1981, USDA held sole responsibility for the delivery of the crop insurance program. In this system, the program did not perform effectively, as insufficient numbers of farmers and ranchers thought it worthwhile or convenient to participate. In 1981, Congress mandated that program delivery be transitioned to the private sector, including insurance agents. In fact, Congress stated that “the sales talents and experience of the private sector commissioned agents . . . are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection.” By placing arbitrary restrictions on agent commissions, RMA is contradicting Congress’s intent and undermining one of the program’s key goals: professional, efficient delivery of the program to those it is intended to benefit.

As if to “soften the blow” this proposal would have on agents, RMA has proposed allowing companies to offer agents “profit-sharing” options. This aspect of the proposal introduces a high level of risk and uncertainty to crop insurance agents and those they employ. By nature, small business profit margins are narrow, and have been made even more so by the current economic instability. RMA has taken a relatively reliable revenue stream for rural small businesses and made it dependent upon the risky variables of extreme weather and an uncertain economy. In addition, the circumstances surrounding the “profit-sharing” options are not defined, except to say that a company is only required to pay out the profit shares if they have achieved a certain profit income for that specific year. This adds another level of risk for agents.

“Profit-sharing” agreements are typically structured so any payments that happen to come are not paid until March or April of the following year. This adds yet another level of uncertainty to small business revenue streams. The small business of a crop insurance agent will have no way of knowing whether the income will be sufficient to cover the expense of delivery. Business owners know their delivery costs and that the RMA proposal will limit the commission revenue stream. As a result, small businesses will have to make expense reductions, the first of which will be reductions in staff.

The “profit-sharing” option will not only hurt agents and their businesses, but will disadvantage smaller Approved Insurance Providers (AIPs), which often write policies in underserved regions. If profit sharing is determined by a level of production (premium), or by levels of profit margins, smaller crop insurance companies will be unable to offer “profit-sharing” options to smaller agents with less volume. This will lead to the smaller AIPs being unable to provide services, leading to business failure or envelopment by larger companies, further damaging the diversity of the program, delivery to underserved areas, and this nation’s rural economy.

Overall, the destructive effects these proposals will have on the economy of rural America should not be underestimated. Crop insurance agents are small business owners in small towns that not only employ support and administrative staff, but are intertwined with the vitality of their communities. These businesses support local contractors, corner coffee shops and diners, and other local businesses in their small communities. Crop insurance agents are contributors to and participants in their local 4-H and Future Farmers of America clubs, support tee-ball leagues and cheerleading, and are involved in many other activities that are essential to a strong community.

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We believe that any reforms made to the crop insurance program should promote private sector delivery mechanisms and leverage the expert ability of agents to deliver the best services possible to farmers and ranchers. Crop insurance agents have proved instrumental in achieving the goal of helping farmers make well-informed risk assessments and choices about the coverage they purchase. We do not believe that the RMA proposals mentioned above “reform” the program, but rather needlessly weaken the program and damage an aspect of the rural economy that currently provides over 18,000 jobs.

Thank you for your consideration of our concerns. Please contact us if you have any questions or if we can be of assistance.

Sincerely,

Independent Insurance Agents & Brokers of America

National Association of Crop Insurance Agents

National Association of Professional Insurance Agents

Cc: The Honorable Saxby Chambliss  
The Honorable Blanche Lincoln  
The Honorable Frank Lucas  
The Honorable Collin Peterson  
The Honorable Thomas Vilsack