Testimony of
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before the
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General Farm Commodities and Risk Management Subcommittee

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Thank you for the opportunity to provide testimony to the Committee regarding the Federal Crop Insurance program and the important role that farmer- driven innovation plays in it through a unique Federal Crop insurance Corporation (FCIC) feature referred to as the 508(h) Process.

Watts and Associates, Inc. (W&A) is an agricultural economic research firm based in Montana, specializing in risk management solutions for American farm producers. We develop products for FCIC, insurance providers, and farm producer organizations. W&A has been one of the most active participants in the 508(h) Process since its inception. We work primarily with farm producer groups to develop new insurance programs tailored to their needs, crops, and regions. We are proud to have developed in a sizeable number of 508(h) programs that have become important components of the overall FCIC program. (See list, attachment A)

Federal Crop Insurance has succeeded because of its unique design as a partnership between government and private industry. The government, through the USDA Risk Management Agency (RMA), assures that farmers are offered crop insurance coverage under fair and consistent terms, and FCIC provides a financial backstop through both subsidy, to make participation more affordable, and reinsurance, to protect against extraordinary losses in bad years. Private companies share in the financial risk and compete to provide the highest levels of service to farmers. Together, this system harnesses what government and business each do best.

The 508(h) Process was first added to Federal crop insurance in 1993 as a special avenue through which farmers could propose new ideas that, if they satisfied rigorous technical standards and met important risk management needs, could be incorporated directly into the FCIC system. Innovation through 508(h) is not a peripheral element of the crop insurance program, but rather has become part of its essential mainstream, giving Federal crop insurance a vitality and responsiveness central to its success. About 86% of the policies sold for coverage offered today began as, or have direct roots in, original 508(h) proposals. Revenue insurance, for instance, today the largest single type of FCIC coverage, began in the 1990s as a 508(h) experiment. Margin insurance, which adds coverage for shifting inputs costs, was likewise developed and approved under the 508(h) process in recent years. Important new coverages for dairies, hurricanes, cotton seed, pulse crops, hemp, livestock, and countless enhancements for specific grower needs, all began under 508(h).

The 508(h) process has several steps. To initiate a new 508(h) product, a producer group or crop insurance company will partner with a well-qualified team of developers to create a new policy to solve problems that current offerings do not address. The development team creates all elements of the new program and presents it for consideration to the FCIC Board of Directors. The proposal is then carefully vetted by the Risk Management Agency's staff to assure there are no critical flaws in program design that would make it vulnerable to fraud, waste, or abuse. These experts assure that the proposal can be appropriately implemented with existing infrastructure, and that the premiums charged to producers are fair and reasonable. Underwriting, premium rates, and compliance are all subject to rigorous technical review, including review by independent outside actuaries, agronomists, and underwriters with experience in crop insurance design. The FCIC board then meets with the submitters to quiz them on any outstanding issues, before voting on whether to approve the new program for implementation.

We, as submitters, acknowledge that the approval process is too long, difficult, and complex, despite many adjustments made along the way to improve it. But we also respect the fact that the FCIC Board has special fiduciary responsibilities where taxpayer funds are involved and where their judgments on product design can affect fairness to farmer-customers and the stability of related agricultural markets. We take these responsibilities very seriously and understand that their care and analytic rigor are an important benefit of the program.

If a proposal is approved by FCIC and implemented in the field, the submitters are then eligible for reimbursement of reasonable development and maintenance costs. This feature was added by Congress in the 2000 Agricultural Risk Protection Act to encourage farm organizations to play a larger role in 508(h) by assisting them in bearing the financial risk of product development. Even under this system, if a product is never approved, the developers and the farmer-partners bear the loss of their development costs. Total reimbursement for development and maintenance costs in 2020 was about $2.8 million, or about 3 hundredths of one percent of the $9.8 billion in premiums generated that year, of which some 86% was written to policies rooted in 508(h) submissions.

The 508(h) Process is not perfect. The high data standards imposed by the review process can make it difficult to create new policies for specialty, minor, or emerging crops. FCIC has imposed strict limits on the reimbursement of costs for maintaining and improving products after they are launched, making it difficult for developers to continue to invest in their ongoing success. Development teams could do a better job of engaging with crop insurance companies and with stakeholders to make them aware of forthcoming products and embrace their valuable input. Every new product introduces additional complexity and costs; when a new product is introduced and fails in the marketplace, there should be a clearer process to sunset it. Each of these challenges are worthy of consideration, but they represent minor adjustments to an overwhelmingly successful program.

Crop insurance today is a central part of the agricultural safety net, relied on by farmers, lenders, and rural businesses in every part of the country, and reaching more crops and farmers than any other USDA program. It is a public and private partnership that has grown and evolved, continually innovating to better meet farmers' needs, and 508(h) is the proven driver of that innovation. Again, I thank you for the opportunity to address the Committee and I will be happy to take any questions.

Attachment A

Selected Products Developed by Watts and Associates

Product (Offer Period)	Acres	Liability	Premium	Indemnity	Cumulative Loss Ratio
Margin Protection (2016-2021)	6,902,261.00	$ 4,724,770,131	$ 281,226,341	$ 41,355,130	0.147
Popcorn Revenue(2012-2021)	1,966,185.00	$ 1,213,365,478	$ 87,753,003	$ 72,610,363	0.827
Area Popcorn (2015-2021)	133,071.00	$ 127,568,366	$ 9,323,908	$ 4,070,980	0.437
Specialty Soybeans (2010-2021)	2,951,824.00	$ 940,798,362	$ 98,292,024	$ 56,014,325	0.570
Dry Pea and Dry Bean Revenue (2013-2021)	16,114,929.00	$ 4,269,363,801	$ 751,081,743	$ 807,870,089	1.076
Enhanced Coverage Option (2021)	7,101,291.00	$ 409,498,137	$ 221,652,780	$ 46,928,524	0.212
Totals*	35,169,561.00	$ 11,685,364,275	$ 1,449,329,799	$ 1,028,849,411	0.710

*W&A developed additional programs not represented in these data. Specialty Corn and Canola programs were ceded to RMA for operation. Malt Barley Endorsement and Cottonseed Endorsement are both inexorably linked to underlying policies and therefore should not be represented as in insurance experience as if they are distinct. W&A's role in other product developments are contributors or as developers under contract to USDA Risk Management Agency are omitted from this listing.

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