BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman, Subcommittee On Conservation, Credit, And Rural Development, Committee On Agriculture House Of Representatives

Information On The Federal Crop Insurance Program

The Department of Agriculture's Federal Crop Insurance Corporation (FCIC) is responsible for developing an insurance program to help protect farmers against financial ruin brought about by natural disaster.

This report responds to several questions raised by the subcommittee on FCIC's administration of farm yield coverages, policy cancellations, indemnity payments, and State-provided subsidies.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-209866

The Honorable Ed Jones
Chairman, Subcommittee on
Conservation, Credit, and
Rural Development
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

Your July 30, 1982, letter asked us to obtain information on certain aspects of the Federal crop insurance program administered by the Department of Agriculture's Federal Crop Insurance Corporation (FCIC). Based on this request and subsequent discussions with your office, we agreed to focus on (1) the effects of the methodology used by FCIC to establish farm yield, (2) FCIC's reasons for charging monthly interest on late premium payments, (3) the current rate of and reasons for policy cancellations, (4) the amount of indebtedness to farmers because of undue delays--30 days or more--by FCIC in paying indemnities, and (5) the extent to which State governments participate in the program by providing additional subsidies to farmers.

In summary, we found that:

--FCIC's methodology for establishing farm yield results in yields that are generally accurate on a countywide basis. However, yields distributed by FCIC to individual farm units often guarantee producers insurance coverage which is either too high or too low. FCIC's new individual yield coverage plan, which was limited to 7 crops for crop year 1982, can provide those farmers with production records an opportunity to obtain insurance coverage that better reflects their actual production.

--Monthly interest charges on late premium payments were established to encourage prompt payment and improve FCIC's cash flow.

--Farmers who had insured approximately 22 percent of the total acres insured in 1981 cancelled their policies in 1982. Farmers cited low coverage and/or high premiums as the major reasons for cancellation.

--FCIC records showed that 57 percent of the indemnity claims submitted by farmers for crop year 1981, totalling more than $241 million, took over 30 days to process for payment.

--State governments are not providing financial assistance to help farmers pay their FCIC premiums.

Detailed responses to your questions are in Appendix I.

We reviewed applicable legislation, implementing regulations, publications, and pertinent program policies and procedures. We interviewed FCIC officials in Washington, D.C.; at the Operations Office in Kansas City, Missouri; and at Field Actuarial Offices located in Billings, Montana; Raleigh, North Carolina; St. Paul, Minnesota; and Topeka, Kansas. We also coordinated our work with the Department of Agriculture's Office of Inspector General and reviewed its applicable audit reports. A detailed description of our objectives, scope, and methodology is contained in Appendix I.

As you requested, we did not obtain written agency comments but did obtain oral comments from the Manager, Federal Crop Insurance Corporation. He concurred with the report's factual content, stating it was a fair presentation of FCIC's current situation.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to the Director, Office of Management and Budget; the Secretary of Agriculture; various Senate and House committees and Members of Congress; and other interested parties. We will make copies available to others upon request.

Sincerely yours,

J. Dexter Peach
Director

C o n t e n t s

ABBREVIATIONS

CCC	Commodity Credit Corporation
FAO	Field Actuarial Office
FCIC	Federal Crop Insurance Corporation
IYC	Individual Yield Coverage Plan
OIG	Office of Inspector General
OMB	Office of Management and Budget
SCS	Soil Conservation Service
SRS	Statistical Reporting Service
USDA	U.S. Department of Agriculture

INFORMATION ON THE FEDERAL CROP INSURANCE PROGRAM

FEDERAL CROP INSURANCE PROGRAM DESCRIPTION

The Federal Crop Insurance Act (7 U.S.C. 1501 *et seq.*) created the Federal Crop Insurance Corporation (FCIC) as an agency within the Department of Agriculture (USDA). FCIC is a wholly owned Government corporation established to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. It is managed by a Board of Directors, subject to the general supervision of the Secretary of Agriculture. The Secretary selects FCIC's Manager, who is also appointed as the Board's chief executive officer.

FCIC's insurance covers only loss in production from unavoidable causes such as drought, hail, wind, frost, freeze, fire, insect infestation, plant disease, flood, and earthquake. It does not cover loss due to neglect, poor farming practices, and theft, nor financial loss resulting from low prices received for farm products.

Producers are given a choice of buying a policy that guarantees their production at 75, 65, or 50 percent of the average yield for their area. The act requires FCIC to set premiums at a level adequate to cover claims for losses and provide a reasonable reserve against unforeseen catastrophes. To encourage participation in the program, the Congress, in 1980, authorized a Federal subsidy of up to 30 percent of each producer's premium, depending on the level of coverage selected. Operating and administrative expenses are provided by annual appropriation and are not provided for in the premiums.

For crop year 1982, FCIC offered insurance in 2,999 of the 3,077 counties in the United States. In some counties, several different crops are insured, and in others only one. Each type of crop insured in each county is called a county crop program. During the 1982 crop year, insurance coverage was available for 28 crops under 14,498 separate county crop programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

In response to the July 30, 1982, request of the Chairman, Subcommittee on Conservation, Credit, and Rural Development, House Committee on Agriculture, and subsequent discussions with his office, we agreed to obtain information on certain aspects of FCIC's crop insurance program. Our objectives were to determine (1) FCIC's process for assigning farm yield, (2) the purpose for charging monthly interest on late premium payments and whether interest earned on early premium payments would offset the loss to the Government which occurs by delays in premium payments, (3) the current rate and reasons for policy cancellations, (4) the amount of indebtedness to farmers and, if possible, to salesmen because of undue delays by FCIC in paying indemnities and commissions, and (5) the extent to which State governments participate in the program by providing additional subsidies to farmers.

We conducted our review at FCIC and USDA's Statistical Reporting Service (SRS) headquarters in Washington, D.C.; at FCIC's Operations Office in Kansas City, Missouri; and at 4 of 11 FCIC Field Actuarial Offices (FAOs) located in Billings, Montana; Raleigh, North Carolina; St. Paul, Minnesota; and Topeka, Kansas.

We visited four FAOs to obtain information on the methodology that different FAOs use to establish coverage levels for individual farmers. The four FAOs we visited were selected because of the amount of business that is done in the States within their areas. Collectively, they account for about 68 percent of the policies written, 69 percent of the total acres insured, and 60 percent of FCIC's total dollar liability. Counties and crops were selected on the basis of 1981 business, the most recent year for which data was available. Our objective was to review the methodology the FAOs used to determine individual farm coverage levels for the following major crops: corn, cotton, wheat, grain sorghum, barley, oats, and soybeans, and if time permitted, any other additional crops. We randomly selected 12 other crops, bringing the total to 19 different crops reviewed in 17 counties. We chose the particular counties on the basis of the largest number of policies in force for each of the selected crops. SRS provided yield data on the counties and crops we reviewed. Appendix II shows the States, counties, and crops within each FAO which we selected for review.

To find out why farmers cancelled their FCIC insurance, we conducted a telephone survey of a random sample of producers who cancelled their policies for the 1982 crop year. From an FCIC listing of 64,746 cancelled policies (time did not permit us to validate the FCIC data), we selected a random sample of 200 policies. These farmers were then telephoned and asked their reasons for cancelling. The estimates obtained from the sample have a measurable precision or sampling error. The maximum sampling error is $\pm$ 7.2 percent at the 95-percent confidence level.

We reviewed information on indemnity claims to determine whether payments to farmers were made in a timely manner. We obtained data from FCIC on all indemnities processed for payment for crop year 1981 as well as for claims submitted through July 1, 1982, for crop year 1982.

FCIC pays commissions to salesmen on policies at various times throughout the year. Data showing when commissions are paid on individual policies is not readily available from the FCIC computer center. Because of the complex and time-consuming programing that would be involved, we were unable to obtain sufficient data on commission payment delays to salesmen. In a February 25, 1983, meeting with the Manager, we were told that the system has been corrected and that this information will be available for crop year 1982 and beyond.

We made this review in accordance with generally accepted government auditing standards. We reviewed applicable legislation, implementing regulations, and pertinent USDA policies and procedures. We interviewed FCIC and SRS officials in Washington and the field and obtained information from them. We obtained publications from FCIC on the Federal insurance program and from SRS on its sampling techniques for determining county average yields. We also coordinated our work with USDA's Office of Inspector General (OIG) and reviewed its applicable audit reports.

We interviewed officials of trade associations representing insurance companies and obtained the views of 14 State government officials, farm owners who lease or rent their land, and producers.

YIELD COVERAGES OFFERED CAN BE TOO HIGH OR TOO LOW

FCIC develops yield coverages for 28 different crops in 2,999 counties. The methodology used to establish yield coverage results in yield estimates that are generally accurate on a countywide basis. However, when yield coverages are distributed to individual farm units, many producer guarantees are either too high or too low. Furthermore, FCIC has not always established yield coverages that correlate with available soil production capability information.

The individual yield coverage (IYC) plan offered for crop year 1982 can provide a higher level of coverage for those farmers who believe the FCIC-established yield coverages are too low. The IYC plan is limited to certain crops, and the farmers must prove they have higher yields by furnishing production evidence. During crop year 1982, less than 1 percent of the policies written by FCIC were under the IYC plan.

Methodology used to establish farm yields

FCIC uses estimated yield data to establish a county average yield for each crop. Yield data is obtained from the SRS survey of yields that are reported voluntarily each year by a sample of farmers. Generally, FCIC calculates a county average for each crop using SRS data for the most recent 10-year period. Yield data for the most recent 10-year period takes into consideration good and bad growing seasons and is the best available representation of actual county production.

FCIC's Actuarial Division provides the county average yield to its underwriters who use it as a control when establishing area classifications within counties to reflect different yield coverages. Each area classification represents a certain production level above and below the county average, but the weighted average of all assigned coverages in the county cannot exceed the county average yield by more than 5 percent.

The area classifications can have production guarantees that range from 50 to 140 percent of the county average yield and the number of areas can vary from 1 to more than 15. Within each area classification there is a span of specific production level guarantees. For example, as the table on the following page shows, a cotton farmer who produces between 200 and 212 pounds per acre would be placed in area classification number 6. The production guarantee of 155 pounds per acre (at 75 percent coverage level) is based on 75 percent of the midpoint for area classification number 6, or 206 pounds per acre.

Area classification	Production span	Production span midpoint	75 percent of production span midpoint	Production guarantee (rounded midpoint average (note b)
	--------------------(pounds)------------------			
NC (note a)				
1	123 to 135	129	97	95
2	136 to 149	142	107	105
3	150 to 165	157	118	120
4	166 to 183	174	131	130
5	184 to 199	191	143	145
6	200 to 212	206	155	155
7	213 to 224	218	164	165
8	225 to 236	230	173	175
9	237 to 249	243	182	180
10	250 to 265	257	193	195
11	266 to 285	275	206	205
12	286 to 303	294	221	220
13	304 to 319	311	233	235
14	320 to 336	328	246	245
15	337 to 354	345	259	260

a/No coverage is offered below a production level of 123 pounds. Farmers who produce 355 pounds or more are limited to coverage at the 354-pound level.

b/Rounded to the nearest 5 pounds.

FCIC develops area classifications on the basis of actual production records or, when actual production records are not available, on the basis of soil productivity estimates or geographical boundaries. We identified a span of individual production levels within each area classification for the 19 crop programs we reviewed. Those crops whose area classifications were based on actual yields had more area classifications and less yield spans within area classifications than those crops whose area classifications were based on soil types or geographical boundaries. Large spans within area classifications cause farmers on the low side to receive coverages that are too high and farmers on the high side to receive coverages that are too low. As a result, an individual farm's actual yield could be considerably above or below the coverage assigned for the area classification.

Area classifications and production guarantees in some county crop programs, such as the tobacco, sweet corn, and cotton programs, are established by grouping producers on the basis of actual yields. The advantage of obtaining actual production records provides the agency with the ability to establish area classifications which more closely reflect actual production levels.

For the crops we reviewed which had actual production records, the FCIC underwriters usually set up about 15 different area classifications (as the cotton example on p. 4 shows). Establishing a large number of area classifications is a reasonable approach; however, individual farms will still face production guarantees that are above or below their actual yields. For example, referring to the table on page 5, a cotton farmer who produced 150 pounds per acre would be eligible for insurance coverage at 157 pounds per acre (120 pounds per acre at the 75-percent coverage level) which is above his production level. Conversely, a farmer who produced 165 pounds per acre would get the same coverage which is below his production level.

For crops for which FCIC does not have actual farm production records, such as wheat, corn, and soybeans, producers are grouped into geographical areas each with a different yield coverage. The groupings are accomplished by using either soil productivity estimates for the various land types within the county or some other general indication of productivity which is used to segment the county. Production guarantees developed under this method are more judgmental and the span within area classifications is greater.

For example, the corn program in Crawford County, Iowa, which was based on geographical areas, offered only four yield coverages--42, 51, 60, and 68 bushels per acre. Thus all farms located in the county would fall into one of these area classifications and receive the applicable yield coverage. Farm production reported to SRS for crop year 1981 showed a range of production levels from 40 to 119 bushels per acre. Very few of the farms were assigned the exact coverage and most were either considerably above or below the coverage levels offered. For example, 85 percent of the farms reported production above FCIC's highest coverage level.

FCIC has not always used all available soil productivity information when developing coverages for crops that FCIC does not have actual production records on. For 7 of the 19 county crops we reviewed, some of the yield coverages established did not correlate with soil production capability as determined by USDA's Soil Conservation Service (SCS).

For example, the FCIC underwriter chose not to use available SCS soil production capability information when developing corn and soybean coverages for Crawford County, Iowa. Our analysis showed that much of the worst land, according to SCS soil analysis, was not assigned the lowest yield coverage. In another case (oats in Bon Homme County, South Dakota), the entire county was assigned the same yield coverage even though SCS soil analysis showed distinct differences in soil capability.

Extent of differences between reported yields and FCIC coverage levels

We obtained crop year 1981 SRS survey yields for six of the county crop programs we reviewed and compared them with coverages offered by FCIC for crop year 1982. Although the FCIC coverage is compared with only 1 year's data, which is not a true reflection of the 10-year average calculated by FCIC, it indicates some of the perceived discrepancies that can occur for individual farmers and indicates the wide differences between coverages offered and actual yields.

In nearly every case, the range of 1981 SRS yields was both more extensive and higher than the insurance coverages FCIC offered for crop year 1982. This could cause many farmers to perceive the insurance coverage as being too low. Crop year 1981 yields for the crops, however, were high in relation to the 10-year average. Only one crop (oats) had a lower yield than the 10-year average. On the other hand, the extensive actual yield ranges for 1981 point out the need for additional yield coverages. For example, only one coverage (32 bushels an acre) was offered for all oats grown in Bon Homme County, South Dakota. However, 1981 yields reported to SRS ranged from 2 to 75 bushels an acre.

The actual yield ranges shown in the following table demonstrate how inaccurate the coverages can be for individual farm units. The coverages offered, however, are fairly accurate on a countywide basis. In each case, the weighted distribution of all coverages in the counties were from 96 percent to 103 percent of the 10-year county average.

<u>Comparison of Yield Coverages Offered by FCIC to Those Reported to SRS by Farmers for Selected Crops and Counties (note a)</u>

Crop and county	--------------Bushels per acre-------------- 0---10---30---50---70---90---110---130---140
Barley, Cass, N.D.	
1982 FCIC yields	17.5-31
1981 SRS yields	25------------------99
Corn, Crawford, Iowa	
1982 FCIC yields	42----68
1981 SRS yields	40-------------------119
Grain Sorghum, Gage, Nebr.	
1982 FCIC yields	38--------73
1981 SRS yields	16-------------------------115
Oats, Bon Homme, S.D.	
1982 FCIC yield	32
1981 SRS yields	2------------------75
Soybeans, Crawford, Iowa	
1982 FCIC yields	16.5-24
1981 SRS yields	20--------50
Wheat, Ward, N.D.	
1982 FCIC yields	8--22
1981 SRS yields	9-----------50

a/The FCIC yield coverages reflect production which is based on a 10-year county average. The SRS yields reflect only those yields reported by a sample of farmers for crop year 1981. FCIC yield coverages are shown at the 75-percent level, the highest yield on which FCIC will offer insurance.

Low participation in the individual yield coverage plan

For crop year 1982, FCIC began offering coverage under an IYC plan for corn, cotton, grain sorghum, rice, soybeans, spring barley, and wheat. The plan is intended to provide an alternative to farmers who can prove their crop production is higher than the coverage offered by FCIC's regular crop insurance. Coverage under the plan is based on a 10-year production history made up of a combination of the individual's actual production records and county average yields.

To participate in the 1982 program, a farmer had to provide verifiable production records for at least the most recent 3 years that the crop was grown. The farmer's total coverage was calculated on a 10-year base. For those years of the 10-year base for which the farmer had no crop records, the area-average yield was used.

FCIC's records at October 29, 1982, showed only 663 IYC policies were sold nationwide for crop year 1982. This is less than 1 percent of the regular crop insurance policies sold during crop year 1982 for those crops eligible for IYC coverage. Most of the policies, or 349, were for cotton, and 276 of these were sold in Texas.

We have no way of determining, however, how many farmers inquired about the program and declined to take the coverage because it resulted in a lower yield. As could be expected, those farmers that bought IYC policies generally obtained higher coverage. Our review of three crops showed average increases of 16.5 percent to 22.3 percent over the yield coverage the farmers would have received under the regular insurance program.

Crop	Number of policies	Amount of yield increase	Percentage of yield increase
		(in bushels)	
Nebraska corn	38		
Average		8.5	16.5
Range		4.3 to 16.3	4.7 to 37.9
Minnesota soybeans	22		
Average		4.0	22.3
Range		1.5 to 7.5	10.2 to 44.6
North Dakota wheat	38		
Average		3.3	18.3
Range		-1.0 to 13.5	-5.3 to 60.0

In one case, the IYC yield was less. Evidently, the farmer made the wrong choice and should have elected regular insurance.

The Chief, Operations Office Sales Promotion Branch, and various FAO staff members cited the following reasons for low IYC participation for crop year 1982:

--Many farmers either do not have adequate records or recent year actual yields were so low that farmers cannot prove higher yields.

--Implementation of the 1982 IYC plan was delayed because FCIC made numerous changes to the program. This prevented timely and adequate training of both people who administered the plan and the sales agents.

--Farmers generally do not want others to know their business and are therefore reluctant to prove yields.

The methods for calculating proven yields for the crop year 1983 IYC plan was changed to encourage farmer participation. This change allows the farmer with an actual yield above the county average to receive an even higher yield than in 1982. A farmer's IYC yields for both 1982 and 1983 are based on a 10-year average, with a minimum of 3 years derived from the farmer's records of planted acreage and production certified acceptable by USDA's Agricultural Stabilization and Conservation Service. The remaining 7 years for 1982 were based on the area classification average yield. The 1983 plan, however, permits the farmer to increase his yield by using an adjusted county average yield for the remaining 7 years, based on the relationship his actual yields are to the county average. For example, the 1982 IYC yield for a hypothetical farm was 89 bushels an acre, but using the same yield data would increase the yield to 95 bushels an acre in 1983. This change should help increase IYC participation if properly publicized.

FINANCE CHARGES ON LATE PREMIUM PAYMENTS

Unlike most private insurance policies, where premiums are due when the policies are written, FCIC currently allows farmers an interest-free period from planting until after harvest before billing farmers for their coverages. Even then, farmers have several more months to pay their premiums before FCIC sends a notice of termination and begins to charge interest on the delinquent account. These provisions do not penalize the insured for failure to pay the premium until after the termination date for insurance which occurs, in some cases, as much as a year after planting.

On June 8, 1982, FCIC's Board of Directors amended the program's provisions for crop year 1983 to provide for the charging of interest at 1-1/2 percent per month on delinquent accounts. Delinquent accounts are those with premiums still unpaid 30 days after the first billing notice, which usually coincides with harvest. FCIC initiated this action to accelerate the collection of premiums and improve FCIC's cash flow. This action still provides an extended time period for farmers to pay for their coverage as the premiums become due after harvest and not at time of planting.

FCIC does not pay interest on Treasury borrowings or funds derived from stock offerings nor does it earn interest on its cash balances. Therefore, we were unable to assess whether interest earned on early premium payments would offset the loss to the Government caused by delays in premium payments and because it is impossible to determine what farmers' payment practices will be when the crop year 1983 interest charges become effective.

Billing procedures

FCIC accepts liability for an insured crop at the time it is planted; however, premiums are not billed until harvest. Depending on the crop, the farmer could have up to 6 months after harvest to pay his premium before the policy is terminated by FCIC due to unpaid premiums. If the farmer does not pay his premium by the termination date (each crop has a specified termination date), he will not be eligible to purchase insurance for the next crop year. About 30 days prior to the termination date, FCIC sends the insured a pretermination notice. For crop year 1982 the notice advises the insured that a 9-percent annual service charge will be applied if the premium is not paid by the termination date. Since the termination date follows harvest by several months, the net effect is an extension of credit, which reduces FCIC's cash position.

In April 1980, a task force comprising Office of Management and Budget (OMB) and USDA employees recommended that FCIC accelerate premium collection activities to improve its cash flow. A similar recommendation was made by USDA's Office of Inspector General in September 1981.

In response to the OMB/USDA task force and OIG recommendations, the Board of Directors on June 8, 1982, adopted for crop year 1983 a monthly interest charge on accounts delinquent 30 days from the first premium billing date. The interest charge was changed from a flat 9 percent annual rate to a 1-1/2 percent monthly rate. Under this procedure, farmers still have an extended time period to pay for their coverage as premiums become due and interest accrues after harvest and not at time of planting.

According to the Manager, FCIC, the Board did not consider other alternatives, such as including a discount for early premium payment. A special assistant to the Manager explained that discounts were not considered because they would affect the actuarial soundness of the program. Since the program operates under a practice of taking in $1.00 of premium for each $0.90 in indemnities and $0.10 in reserves, any premium reduction through discounts would offset the balance. The Manager further explained that FCIC considers interest income as a portion of the premium income, which will be used to pay losses and build reserves.

FCIC financing

FCIC operations are funded through capital stock, annual appropriations, and income derived from premiums. Currently, $250 million in capital stock is issued and outstanding, and on February 23, 1983, the Board of Directors approved the issuance of an additional $150 million in fiscal year 1983. Except for a transfer of funds from USDA's Commodity Credit Corporation (CCC) in fiscal year 1981, FCIC premium income, appropriations, and capital derived from stock have been sufficient to operate the program and FCIC has not needed to borrow funds to cover cash flow shortages.

FCIC does not pay interest on capital stock outstanding nor does it earn interest on its cash balances. According to the Manager, Appropriations and Investment Branch, Department of the Treasury, Treasury will only permit FCIC to invest cash it holds in excess of capital stock and appropriated funds. He said FCIC's capital stock and appropriated funds are not new revenues, and their investment would provide no benefit to the Government. As a result, FCIC will not be able to earn interest on early premium payments received from those insured until its cash position exceeds the funding for capital stock and annual appropriations.

In fiscal year 1981, claims far exceeded premium income (because of a major crop disaster) and the Secretary of Agriculture transferred $250 million from CCC to FCIC to make indemnity payments. The Secretary of Agriculture eventually designated those funds as nonreimbursable to CCC and the amount was written off. As a result, the Federal Government, through CCC, wrote off losses totaling $250 million.

LOW COVERAGE AND/OR HIGH COST ARE MAJOR REASONS FOR POLICY CANCELLATION

Although the intent of the Federal Crop Insurance Act of 1980 was to improve the crop insurance program by expanding it to all crops and all counties and by correcting its operational deficiencies, farmers continue to find fault with the program and cancel their coverage. Farmers insuring almost 22 percent of the acres for crop year 1981 cancelled their insurance for crop year 1982. The major reasons cited by 46 percent of the farmers who responded to our telephone survey was the high cost of premiums and/or low yield coverage.

FCIC maintains statistical data on policy cancellations; however, the information currently available does not identify the reasons why insureds cancelled their policies. Therefore, FCIC does not have the capabilty to readily identify the reasons for cancellations.

We reviewed available FCIC records on insurance cancellations by individual States and for the Nation, as a whole, for crop year 1982. The information disclosed that 11.5 million of the 41.4 million crop year 1982 carryover acres, or almost 28 percent of the acres that were insured by FCIC nationwide in crop year 1981, were not insured in crop year 1982. However, States which provided some of the highest premium income to FCIC had a large percentage of cancellations. For example, six States accounted for 42 percent of the 1981 crop year premium income. Yet, these same States accounted for 59 percent of the total areas cancelled for the 1982 crop year. The percentage of acres cancelled within these six States was as follows: North Dakota--26 percent; Iowa--35 percent; Nebraska--32 percent; Kansas--27 percent; South Dakota--49 percent; and Texas--31 percent.

The table on the following page shows that almost 78 percent of the 1982 acreage cancellations were initiated by farmers.

FCIC Categorization of Cancellations

	Acres	Percent
Insured cancelled	9,055,476	77.9
FCIC cancelled--insured considered a high risk	2,601	.1
FCIC cancelled--insured did not seed	5,956	.1
FCIC cancelled--debt to corporation	2,040,729	17.5
FCIC cancelled--other reasons	523,143	4.5
Total	a/11,627,905	b/100.0

a/Cancellation categories collectively overstate the total acres cancelled by 156,784 acres. The Director, Field Operations Division, said FCIC is currently updating its files, and these acres will be deleted as they represent acres written and cancelled in crop year 1982.

b/This figure does not add due to rounding.

In March 1982, FCIC conducted a study to find out why farmers cancelled their policies. The results of that study showed that 28.8 percent of the farmers cancelled their policies because of a coverage (23.2 percent) or premium (5.6 percent) complaint.

The documentation supporting the study's results, however, could not be located; therefore, we could not verify the reliability of the information provided. Consequently, we conducted our own analysis to find out why farmers elected to cancel their crop insurance policies. From a universe of 64,746 cancelled policies (some policies cover more than one crop), we randomly selected a sample of 200 policies. We obtained comments through a telephone survey from 188 of the policyholders for a 94-percent response rate. We were unable to contact or obtain comments from 12 policyholders, or 6 percent of our sample.

Our review showed that about 46 percent of the farmers we contacted cancelled their policies because of either low coverage and/or high premiums. The table below identifies the various cancellation reasons cited.

Summary of Reasons Cited by Farmers for Policy Cancellation

Responses	Number	Percent
Not growing crop/entity dissolved	36	19.2
Misunderstood program	5	2.7
Claim delay	2	1.1
Low coverage and/or high premium	86	45.7
Transferred insurance	3	1.6
Cutting expenses	14	7.4
Inadequate service	5	2.7
Improved crop prospects	14	7.4
Believed unnecessary	10	5.3
Other (note a)	13	6.9
Total	188	100.0

a/Other reasons for cancellation included late plantings, failure to complete forms, and tenant changes.

FCIC INDEMNITY PAYMENT PRACTICES

We found that FCIC computer records showed 57 percent of the indemnity claims submitted for crop year 1981 took over 30 days to process for payment. Although we verified that we had properly extracted FCIC data, we were unable, because of time constraints, to verify the extent that the data FCIC entered into the system was accurate.

We obtained computer tapes from FCIC containing indemnity payment information for crop years 1981 and 1982 and identified 149,948 claims for crop year 1981 and 6,906 claims that were submitted as of July 1, 1982, for crop year 1982. These claims amounted to $393.9 million and $17.6 million for the respective crop years.

We analyzed the information on those tapes and found that 57 percent of the indemnity claim amounts totaling over $241.6 million in crop year 1981 had not been processed for payment within 30 days after the farmer signed the claim. The average number of days to process a crop year 1981 claim was 45 days, but the average for those that were more than 30 days old was about 63 days. No crop year 1982 claims were paid by July 1, 1982; however, claims pending for more than 30 days at that time exceeded $4.3 million. FCIC also had another $2 million in claims over 30 days old under litigation for crop year 1981 and about $400,000 for crop year 1982.

As requested by the Chairman, the following table shows the amount of indebtedness to farmers that was more than 30 days old at certain fixed dates for crop years 1981 and 1982.

Indebtedness to Farmers

Fixed date	Amount of unpaid claims which are more than 30 days old (millions)
-----------Crop Year 1981-------------	
7-1-81	$ 3.5
1-1-82	50.6
7-1-82	5.0
-----------Crop Year 1982-------------	
7-1-82	4.3

We performed a limited review of 32 claims that were identified by FCIC's computer records as taking over 30 days to process for payment. Our review of these claims indicated that two were processed within 30 days of submitting the claim but were entered incorrectly into FCIC's data base, showing that they took over 30 days to process. Inaccurate recording of indemnity processing information into FCIC's computer system could affect the number of claims that it shows took longer than 30 days to process.

Another 18 claims were not reviewed properly by FCIC to ensure that they were filled out completely and correctly, and 9 other claims were delayed because FCIC took over 30 days to process the claim for payment. FCIC is aware of this problem and has implemented a quality assurance program to identify and correct problems that its agents have in correctly completing forms. It has also made its agent training program more comprehensive by emphasizing completeness and timely submission of claim forms. We were unable to determine the cause of the delay for one claim because the file containing the supporting information was not available. The remaining two claims were delayed because of revisions or delays caused by the farmer.

STATE GOVERNMENTS NOT PROVIDING ADDITIONAL PREMIUM SUBSIDIES

The Federal Crop Insurance Act authorizes FCIC to enter into agreements with State governments whereby the States may pay an additional premium subsidy to reduce the cost of crop insurance paid by farmers. Although this provision has existed since the 1980 legislation, we did not find any State governments that were providing premium subsidies to farmers.

During November 1982, we contacted the heads of the agricultural departments in 14 States that accounted for over 80 percent of FCIC's 1980 premium collections. These officials informed us that no programs were underway in their States to provide partial premium payments to farmers. Most said that their States did not have the financial ability to assist farmers in this program. Furthermore, 7 of the 14 department heads said they were not aware of the act's provision for a State subsidy. For example, one Deputy Commissioner said that during the last meeting of the State legislature, ways to help farmers were discussed, however, because they did not know about the provision, premium payment assistance was not one of them. He said that if money were available, the legislature probably would be in favor of providing assistance.

FCIC feels it has taken appropriate action to notify States of this provision. According to the Manager, the State subsidy was discussed in the "Governor's Guide to Crop Disaster and Crop Insurance" prepared by FCIC in December 1981, as well as other FCIC publications and documents.

AGENCY COMMENTS

The Manager, FCIC, who orally commented on this report, concurred in its factual content and stated that it fairly represents FCIC's current situation.

STATES, COUNTIES, AND CROPS SELECTED FOR REVIEW, BY FIELD ACTUARIAL OFFICE

Field Actuarial Office	State/County	Crop
St. Paul	Iowa:	
	Crawford	Corn
	Crawford	Soybeans
	Minnesota:	
	Clay	Sugar beets
	Wisconsin:	
	Fond du Lac	Green peas
	Dodge	Sweet corn
Billings	North Dakota:	
	Cass	Barley
	Cass	Sunflowers
	Barnes	Rye
	McIntosh	Flax
	Morton	Forage seed
	Walsh	Potatoes
	Ward	Wheat
Topeka	Colorado:	
	Weld	Beans
	Nebraska:	
	Gage	Grain sorghum
	South Dakota:	
	Bon Homme	Oats
Raleigh	North Carolina:	
	Henderson	Apples
	Anson	Cotton
	Stokes	Tobacco
	Virginia:	
	Southampton	Peanuts

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