



Crop Insurance Professionals Association LLC.

499 South Capitol Street, SW, Suite 408, Washington, DC 20003, (202) 479-4370

April 22, 2010

Mr. William Murphy
Administrator, Risk Management Agency
U.S. Department of Agriculture
South Agriculture Building, Room 6092-S
1400 Independence Avenue, SW
Washington, D.C. 20250

Dear Administrator Murphy:

Please accept this letter as a supplement to our letter, dated February 12, which fully sets forth the views of CIPA with respect to the First and Second SRA drafts, generally.

We are compelled to make a statement relative to a provision contained in the February 23 draft SRA referred to as the "soft cap" on agent commissions.

First, we are deeply concerned that the "soft cap" on commissions represents an unprecedented interference by the agency into what are currently wholly private contracts – sometimes multi-year contracts – between companies and agents. We believe the combined effects of the imposition of a "soft cap" and reference prices used to calculate A&O would have severe practical as well as legal implications.

Second, the government imposed cap runs against the principle of service competition that is vital to the success of this public-private partnership. Commissions are a critical way for companies to reward agents who do an exceptional job in servicing their farmer customers.

To eliminate this point of competition will reduce the incentives for agents which will in turn and over time reduce the quantity and quality of competition. While this effect is somewhat mitigated by a company's ability to profit share, the "soft cap" still presents great uncertainties for small businesses that will have a negative impact upon jobs in rural communities across the nation.

On this note, we have read the RMA's argument that a soft cap is needed to prevent another company failure like the one seen in 2002. However, on p.13 of the RMA's FAQ piece respecting the 2nd draft, you also state, "As a regulator, RMA performs a rigorous financial analysis each year on each company to ensure that it has the financial capacity to withstand 2 consecutive years of significant losses." These review procedures – which were revamped and strengthened in the wake of the 2002 failure – seem very appropriate, and provide a means by which RMA can ensure that a company's commission expenses are not excessive. We believe this proven method is far preferable to the commission cap, which we see as tantamount to an elementary school teacher penalizing the whole class because the teacher fears the possible misbehavior of one student.

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Finally, believing the cap is more about taking money out of the private delivery system than anything, we must note that the 80% cap on commissions, when combined with other cuts to A&O for companies, would effectuate a deep and unsustainable cut for many agents in many regions, and make the sale and servicing of certain policies that are already unprofitable even less so.

Based on the NCIS's April 9 comment, A&O for the 2010 crop year in the State of Iowa under provisions of the 2nd Draft SRA will be down 45% from the 2009 A&O, which is already down 25% from 2008. This, of course, is before the cap is applied. If, one assumes that average commissions in Iowa are around 20%, one would be looking at an additional 30% cut generally just to come into compliance with the cap.

To put numbers on this, in 2008 Iowa received \$185 million in A&O, in 2009 it received \$128 million and in 2010 it is expected to receive \$105 million; and based on current commissions all of this money or perhaps even more would have stayed in the State, and gone to people and businesses in rural communities to sustain jobs.

Under the combined provisions of the 2nd Draft (applying the 80% cap on commissions to the expected \$70 million in A&O payments going forward), those same Iowa communities would be limited to roughly \$56 million. In short, this cut is simply too deep and we respectfully warn that the economic repercussions will be real, painful and directly tied to this SRA.

Another area that highlights the problem with the 80% cap is with respect to the sales and servicing of CAT policies, which currently provide LAE equal to 6% of the imputed premium.

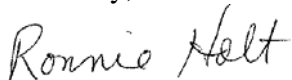
The cap would make the maximum commission on a CAT policy equal to 4.8% of imputed premium, which is simply too low to justify the work associated with the sale to many specialty crop producers or smaller growers of crops where buy-up is simply not viable.

Generally, we applaud and encourage efforts to move growers away from CAT toward higher coverage, and if buy-up were a viable option for growers of all crops, we would not be as concerned.

But CAT remains the only viable option for some crops, and the growers of these crops should not be further penalized by a commission structure that makes it unprofitable for any agent to provide them service.

For these reasons, CIPA strongly recommends that the cap on agent commissions contained in the 2nd Draft be eliminated.

Sincerely,



Ronnie Holt
Chairman
Crop Insurance Professionals Association