Agro™ NATIONAL

February 26, 2009

The Honorable Max Baucus
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus:

On behalf of the Agro National crop insurance company, I am writing to respectfully express our concern about the Senate Finance Committee Staff Discussion Draft ("Staff Draft") proposal to disallow deductions for certain reinsurance premiums with respect to U.S. property and casualty risks paid to affiliates. We are concerned that the proposal would adversely affect the provision of crop insurance products that protect America's farmers.

Background: Crop Insurance and Global Reinsurance

Agro National provides the American farmer with tools to manage risk. Headquartered in Council Bluffs, Iowa and with an office in Great Falls, Montana, the company writes and services crop insurance policies in 22 states. In 2008, Agro National provided over \$21 million in mono-line crop insurance ("MCPI") premiums, providing \$122 million of liability protection, and \$4.5 million of hail premiums, providing \$66 million of liability protection, in Montana alone, which constituted approximately ten percent of the total premiums sold in the state. Nationwide, Agro National provided over \$300 million in crop insurance premiums in 2008. The financial security of these policies is assured by Stonington Insurance Company, which assists Agro National in meeting the capital requirements set out in the Standard Reinsurance Agreement to deliver Federal crop insurance. In turn, Stonington's ultimate parent, RenaissanceRe Holdings Ltd., a Bermuda-based global provider of reinsurance and insurance, provides significant capital to Stonington Insurance Company. RenaissanceRe's support has allowed Agro National to grow its entirely U.S.-based workforce to 72 employees; in addition, Agro National is currently recruiting candidates for several full-time positions based in rural, agriculture-focused regions of the U.S.

As you know, agricultural production is subject to many uncertainties. Bad weather, insect infestations, plant diseases, floods, and other natural disasters can delay plantings, diminish yields, or catastrophically reduce a crop, and, as a result, destroy a farmer's profits for the year. Farmers are also negatively impacted by volatile commodity prices. As early as the Great Depression, Congress recognized that these risks caused systemic instability and that a robust crop insurance safety net was in the national interest. Since that time, the federal government has been involved in crop insurance. Initially, the federal government administered the Federal crop insurance program. In 1980, however, Congress passed legislation designed to make the program more affordable and accessible. This modern era of crop insurance was marked by the introduction of a public-private partnership between the government and private insurance companies that has dramatically increased the effectiveness of the program. Currently, the U.S. Department of Agriculture's Risk Management Agency ("RMA"), which supervises the Federal Crop Insurance Corporation ("FCIC"), has overall responsibility for administering the crop insurance program.[1]

Turning to the specifics of the current crop insurance program, RMA oversees the development of new crop insurance products and the expansion of existing crop insurance products. The premium rates and insurance terms and conditions either are established by FCIC for the products it develops or are established with FCIC approval for products developed by private insurance providers.[2] Sixteen private insurance companies market and service these crop insurance products.[3] FCIC also provides reinsurance to approved commercial insurers that insure agricultural commodities using FCIC-approved acceptable plans. The Standard Reinsurance Agreement ("SRA") establishes the terms under which FCIC provides financial support and reinsurance for eligible crop insurance contracts sold or reinsured by the insurance company.[4] RMA pays companies a percentage of the premium on policies sold to cover the administrative costs of selling and servicing the policies.[5]

Private reinsurance plays a critical role in this system. Although FCIC supports the Federal crop insurance program through limited government-provided reinsurance, crop insurance companies still remain exposed to substantial risks. The SRA contemplates this issue and, accordingly, allows insurers to reinsure their business in the private reinsurance market.[6] To remain profitable and to be energetic participants in the Federal crop insurance program, all SRA holders cede a portion of their risk to commercial reinsurers.

---

[1] Federal Crop Insurance Act, 7 U.S.C. § 1501 *et seq.* The federal crop insurance program is complemented by the Non-Insured Assistance Program, which is administered by the Farm Service Agency and is available to producers not offered insurance coverage in cases where there is insufficient production history. In addition, since 1988, Congress has periodically enacted disaster assistance bills to supplement ongoing disaster programs

[2] USDA Risk Management Agency, http://www.rma.usda.gov/aboutrma.

[3] *Id.* In the early 1980s, there were approximately 60 companies providing crop insurance.

[4] USDA Risk Management Agency, Standard Reinsurance Agreement, http://www.rma.usda.gov/pubs/ra.

[5] *Id.*

[6] *Id.*

Non-U.S. reinsurance companies play a critical role in the crop insurance safety net. Crop insurance is characterized by large systemic risk that makes it a highly specialized area, requiring sophisticated data analysis and modeling infrastructure, including personnel with key insurance and reinsurance expertise. In recent years, the flexible and responsive regulatory structures in countries like Bermuda have fostered the development of this expertise. In addition, the U.S. requires a large amount of crop reinsurance capacity, a substantial part of which is supplied by non-U.S. reinsurance companies, many of which are based in Bermuda and Europe. In 2007, Bermuda-based reinsurers accounted for nearly 57 percent of the private U.S. insurance premiums reinsured by U.S. MCPI insurers.[7] In agricultural states, the percentage of private reinsurance provided by Bermudian and European reinsurers ranged from 43 to 83 percent, with these companies collectively supporting hundreds of thousands of farmers.[8] In Montana, the percentage was 83%–higher than in any other state.

An anecdote may further illustrate the point. Two weeks ago, the National Crop Insurance Association held its annual meeting. By our count, more than 60 reinsurers attended. Only a handful were from the U.S. The rest were non-U.S. reinsurance companies, primarily based in Bermuda or Europe.

The Impact of the Staff Draft Proposal

The Staff Draft would disallow deductions for "excess" reinsurance premiums with respect to U.S. risks paid by to affiliated insurance companies that are not subject to U.S. income taxation. By doing so, the Staff Draft would have a direct and dramatic effect on the global market for the reinsurance of U.S. crop insurance and, accordingly, on the U.S. crop insurance system itself.

As a general matter, a U.S. crop insurance company would be denied deductions for insurance premiums that are ceded to an affiliated foreign reinsurance company to the extent that the ceded premiums exceed the relevant "industry fraction." In the specific case of Agro National, although the precise application of the industry fraction is uncertain, this could have the effect of denying deductions for premiums paid to RenaissanceRe even though such premiums are well within the range of customary industry practice. This would significantly increase taxes and, hence, costs. The only practical alternative would be for Agro National to seek reinsurance from other foreign reinsurance companies, which would be significantly less efficient.

Increasing the taxes or costs in this way would likely increase the general upward pressure on reinsurance rates. Moreover, as noted previously, the FCIC must either establish or approve premium rates associated with crop insurance. As a result, reinsurers may decrease their provision of crop reinsurance, focusing instead on other types of insurance where the increased tax burden may be more easily distributed to consumers. The lack of accessibility to reinsurance may, in turn, reduce the number of insurance companies providing crop insurance. Moreover, these changes would come at a time of dislocation in the U.S. financial sector, when the limited capital that is available comes primarily from international sources.

---

[7] *See* 2007 U.S. NAIC Financial Statement Data for Insurers Writing Crop Insurance.
[8] *See id.*

To put the potential impact in perspective, in the early 1980s, over 60 companies participated in the federal crop insurance program. Today, there are only 16 and four of these companies write approximately 73 percent of the business. Although there are a variety of reasons for this decrease, policy should strive to foster the growth of crop insurer and reinsurer participation in the federal crop insurance program, rather than providing incentives to exit the market.

We urge you to keep these important concerns in mind as you consider the proposal.

Sincerely,

Kim Gibson

Kim Gibson
President and Chief Operating Officer
Agro National

cc: The Honorable Charles Grassley
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510