

Testimony of  
Alex Offerdahl  
Watts and Associates, Inc.  
Billings, Montana  
before the  
U.S. House of Representatives Committee on Agriculture  
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.

## Contact Information

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**Committee on Agriculture  
U.S. House of Representatives  
Information Required From Nongovernmental Witnesses**

**House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.**

1. **Name:** Alex Offerdahl

2. **Organization you represent:** Watts and Associates

3. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:** \_\_\_\_\_

I have worked in agricultural economics, policy development, and crop insurance actuarial and underwriting design at Watts and Associates for 19 years. Prior to my current role, I worked as a market and policy educator for the Montana Grain Growers Association and an agricultural journalist at KFRM 550 AM Radio. Concurrent to those employment experiences, I have worked on my family's small grain and cattle ranch in Northern Montana all my life

4. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:** \_\_\_\_\_

I hold a Bachelor of Science from Montana State University in Agricultural Education (2001) and a Masters of Agri-Business from Kansas State University (2005). I have led the team responsible for the development of 15 new Federal Crop Insurance products, totaling ~\$1 B in premium annually, since 2008.

5. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:** \_\_\_\_\_

I am the managing partner at Watts and Associates, and I am representing W&A as an advocate for innovation and continuous improvement to Federal Crop Insurance. I hold no elected positions or offices. I can be reached at 406-252-7776 or aofferdahl@wattsandassociates.com

**PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.**

# Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)\* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

**Committee:** \_\_\_\_\_

**Subcommittee:** \_\_\_\_\_

**Hearing Date:** \_\_\_\_\_

**Hearing** :

**Witness Name:** \_\_\_\_\_

**Position/Title:** \_\_\_\_\_

**Witness Type:**  Governmental  Non-governmental

**Are you representing yourself or an organization?**  Self  Organization

**If you are representing an organization, please list what entity or entities you are representing:**

## **FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY**

**Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.**

**Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.**

**Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.**

**Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.**

**Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.**

- I have attached a written statement of proposed testimony.
- I have attached my curriculum vitae or biography.

\* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.