What Is Crop Insurance?

Crop insurance in America can trace it roots all the way back to 1880, when private insurance companies first sold policies to protect farmers against the effects of hailstorms. These Crop-Hail policies are still sold today by crop insurance companies and are regulated by individual state insurance departments. In 2022, farmers spent just almost $1.4 billion on Crop-Hail insurance to protect $46 billion worth of crops.

In addition, farmers may also purchase Federal crop insurance which provides a suite of alternative risk management tools that protect farmers and ranchers against the loss of their crops due to natural disasters such as drought, freeze, flood, fire, insect, disease and wildlife, or a loss of revenue due to a decline in price. Federal crop insurance is sold and serviced by private-sector crop insurance companies and agents, while being regulated by the Federal government.

Participation in the Federal crop insurance program has grown rapidly since private sector delivery began in 1981 when only 45 million acres and $6 billion worth of crops were insured. By 2022, 1.2 million polices were sold protecting more than 130 different crops covering more than 490 million acres, with an insured value of $173 billion.

The Federal crop insurance program was modified and improved to provide timely financial assistance to farmers when they need it most, while reducing taxpayer risk exposure. Today, Federal crop insurance is the cornerstone of U.S. farm policy and the safety net for America's farmers.

Who Benefits From Federal Crop Insurance?

Farmers, taxpayers and our economy all benefit from the farm safety net provided by crop insurance.

When confronted with yield or revenue losses, farmers use crop insurance indemnities to financially recover from natural disasters and volatile market fluctuations; pay their bankers, fertilizer and seed suppliers, equipment providers, and landlords; purchase their production inputs for the next season; and give them the overall confidence to make long-term land improvement and infrastructure investments that increase their production efficiency.

This may explain why most farm leaders across the country have called Federal crop insurance their top risk management tool and a policy priority during recent Farm Bill debates. Of course, others also benefit when farmers have proper protection against uncontrollable risks. For example:

- The rural economy is largely dependent on farmers' ability to rebound after disaster strikes. A study by Farm Credit Services of America explained this relationship following the historic 2012 drought, noting that Federal crop insurance saved 20,900 jobs – with an annual labor income of $721 million – in Iowa, Nebraska, South Dakota, and Wyoming alone.

- Absent crop insurance, the total cost of natural disasters that harm farmers would fall directly on U.S. taxpayers.

American consumers rely upon agriculture for food and fiber. Additionally, in 2019 agriculture and related industries accounted for 10.9 percent of U.S. employment as well as 5.2 percent of the U.S. gross domestic output. Therefore, it is in the public interest to have a financially stable agricultural sector and a strong public-private partnership in support of the crop insurance safety net for farmers, who increasingly face increasingly severe weather patterns due to climate change and unfair competition from foreign countries that may violate international trade rules.

Who Shoulders Risk In Crop Insurance?

Before crop insurance assumed its central role in the U.S. farm safety net, the cost of natural disasters that harm America's farmers historically fell directly on the laps of taxpayers.

The 2014 Farm Bill and 2018 Farm Bill reinforced and broadened crop insurance as a cornerstone of farm policy. Today, farmers pay for part of their own safety net, and the risk of crop loss is distributed and shared among the three key parties.

- Farmers must first purchase crop insurance before being protected and must shoulder a portion of the losses through deductibles before receiving an indemnity for the verifiable loss. On average, farmers in the United States must lose approximately 25 percent of the value of their crop before a crop insurance policy begins to pay – losses that taxpayers previously may have been asked to cover in *ad hoc* disaster bills.
- Crop insurance companies pay indemnities from their own coffers on most claims, thus minimizing cost to taxpayers. And when indemnities paid are greater than premiums received, companies experience an underwriting loss and lose money. Since the inception of the public-private partnership, insurance companies have experienced net underwriting losses in 1983, 1984, 1988, 1993, 2002, 2012, and 2019.
- The Federal government provides reinsurance, that is insurance for the insurance companies. As such, the government shares in an agreed-upon portion of the companies' underwriting losses, and in return, takes a share of the companies' underwriting gains. In short, as a reinsurer the government helps shoulder excessive losses, especially in a significant loss year like 2012, but also shares in underwriting gains in years when losses are less than premiums.

Why Is Private-Sector Delivery Of Crop Insurance Important?

Private-sector delivery is a key strength of crop insurance because time is of the essence when a major loss occurs and farmers need money to meet financial obligations.

Government *ad hoc* disaster programs are notoriously slow in getting Congressional approval and then gearing up to deliver payments to farmers, often taking as long as 18 months to two years after a disaster for help to finally arrive. Crop insurance, on the other hand, is a highly dynamic program that is closely tailored to each farmer's operation and generally delivers assistance within 30 days of a claim being finalized.

While the Federal government originally delivered crop insurance, in 1981 lawmakers turned to the private sector to help deliver crop insurance amid low program participation and high taxpayer cost for ongoing *ad hoc* disaster programs. The new public-private partnership formed between the U.S. government and private insurance companies brought together the efficiencies of a private-sector delivery system with the regulatory and financial support of the Federal government.

Today, the private-sector crop insurance companies employ more than 20,000 licensed agents, certified loss adjusters and company staff who sell policies to farmers, adjust and determine the extent of losses, collect premiums, and pay claims. Furthermore, companies invest heavily in technology, infrastructure efficiency, training programs, and service improvements for farmers and ranchers.

Watch a video on private sector efficiency here. Watch a video that discusses why affordability, availability, and viability of Federal crop insurance are so crucial.

How And Why Does The Government Encourage Crop Insurance Participation?

Congress created and provides funding for modern-day Federal crop insurance through the Federal Crop Insurance Corporation (FCIC) facilitating farmers' management of the risks to natural disasters and market fluctuations. The U.S. Department of Agriculture's Risk Management Agency (RMA) administers the numerous programs of the FCIC. To this end, FCIC/RMA sets program standards and procedures, develops and approves new products and improvements to existing products and programs, sets premium rates and price elections, and provides general program oversight. The Federal government enhances affordability for farmers by discounting farmer premiums and offsetting a portion of the delivery costs that would otherwise be built into the premium.

Who Are Approved Insurance Providers (AIPs)?

AIP is an acronym for an Approved Insurance Provider. An AIP is a state-chartered property and casualty insurance company that has executed a Standard Reinsurance Agreement (SRA) and/or Livestock Price Reinsurance Agreement (LPRA) with the Federal Crop Insurance Corporation (FCIC). As a party to the SRA, the AIP is authorized to sell and service Federal crop insurance regulated by the USDA. There are currently 13 AIPs who collectively offer coverage for more than 130 crops and livestock in all 50 states.

To qualify as an AIP, a company must demonstrate that it has the requisite financial and operational resources, organization, experience, internal controls, and technical skills to meet complex Federal crop insurance program requirements. After approval, continued year-to-year participation in the program is conditioned upon satisfactory performance.

Private companies were first enlisted to deliver Federal crop insurance in 1981 after government-delivered insurance failed to gain popularity. Private-sector delivery of the program was intended to spur greater participation. Since that time, coverage has expanded greatly thanks in part to private-sector efficiency, ingenuity, and personal relationships forged through other lines of farm, property, and auto insurance needed by farmers. Today, AIPs work closely with a network of agents to tailor coverage for farmers' individual needs. They employ thousands of employees and contract loss adjusters who process claims and quickly provide indemnity checks after disaster strikes. The companies continue to maintain and improve the vast infrastructure required to service the 1.1 million policies covering 380 million acres nationwide.

How It Works

Two types of crop insurance are available to farmers in the United States: Crop-Hail and Multiple Peril Crop Insurance (MPCI).

Crop-Hail

Crop-Hail policies are not part of the Federal Crop Insurance Program and are provided directly to farmers by private insurers. Many farmers purchase Crop-Hail coverage because hail has the unique ability to totally destroy a significant part of a planted field while leaving the rest undamaged. In areas of the country where hail is a frequent event, farmers often purchase a Crop-Hail policy to protect high-yielding crops. Unlike MPCI, a Crop-Hail policy can be purchased at any time during the growing season.

Multiple Peril Crop Insurance (MPCI)

MPCI policies must be purchased prior to planting and cover loss of crop yields from all types of natural causes including drought, excessive moisture, freeze and disease. Newer coverage options combine yield protection and price protection to guard farmers against potential loss in revenue, whether due to low yields or changes in market price.

Under the Federal Crop Insurance Program's unique public-private partnership, there are currently 15 private companies authorized by the United States Department of Agriculture Risk Management Agency (USDA RMA) to write MPCI policies. The service delivery side of the program — writing and reinsuring the policies, marketing, adjusting and processing claims, training and record-keeping, etc. — is handled by each private company. The program is overseen and regulated by the Risk Management Agency (RMA). The RMA sets the rates that can be charged and determines which crops can be insured in different parts of the country. The private companies are obligated to sell insurance to every eligible farmer who requests it and retains a large portion of the risk on over 80 percent of the policies written.

The federal government also subsidizes the farmer-paid premiums to reduce the cost to farmers. In addition, it provides reimbursement to the private insurance companies to offset operating and administrative costs that would otherwise be paid by farmers as part of their premium. Through this federal support, crop insurance remains affordable to a majority of America's farmers and ranchers.

By combining the regulatory authority and financial support of the federal government with the efficiencies of the private sector, the crop insurance program has succeeded in meeting and even surpassing the goals set forth by Congress for broad participation, diversity and inclusion. By using the private sector, risk is shared among the private companies as well as the government.

Vermont Fact Sheet – Crop Insurance

VERMONT

Top Crops Grown: Corn, maple syrup, apples

Acres Covered by Crop Insurance Policies: 79,972

Value of Insurance Policies: $31.6 Million

Farmer-Paid Premiums: $1.2 Million

Insurer-Paid Indemnities: $2.1 Million

Economic Impact: $781 Million

Vermont

Agriculture Drives Vermont's Economy

- Vermont crops contribute $781 million to the state's economy.
- Top crops grown include corn, maple syrup, and apples.

Crop Insurance Is Vital To Vermont's Agricultural Sector

"That's the beauty of crop insurance. It not only protects you from risks you have no control over, but the record keeping of the agent and the system helps you keep track of what you did this year and what you have done in the past." – Mike Audit, Orwell, Vermont

- In 2021, crop insurance protected 79,972 acres providing $31.6 million in liability protection.
- Farmers paid $1.2 million for this insurance coverage.
- Crop insurers paid $2.1 million to cover crop losses in 2021.

Companies Writing Crop Insurance In Vermont Include:

American Farm Bureau Ins. Services

FarmBureauSellsCropsInsurance.com

800-662-5142

Crop Risk Services

www.cropriskservices.com

888-523-6277

Hudson Crop Insurance Services

hudsoncrop.com

866-450-1445

NAU Country Insurance Company

naucountry.com

763-427-3770

ProAg

proag.com

800-366-2767

Rain and Hail L.L.C.

rainhail.com

800-776-4045

Rural Community Insurance Services

rcis.com

800-451-3836

Who Sells it

Federal Crop Insurance is sold by certified crop insurance agents within each state. Special CE and is required in order to sell and service crop insurance. Policies are serviced by AIP's (Approved Insurance Providers) which act as intermediaries for the USDA/RMA and the producer (grower/farmer)

How Are Premiums Determined

In an APH contract (Actual Production History) a 5 to 10 year production and acreage history is established. Coverage is based on prior APH and coverage level for the crop year.

Crop Insurance Contract/Policy

A crop insurance contract is a commitment between insured farmers and their insurance providers. Either party has the right to cancel or terminate the contract at the end of each crop year. Unless the contract is canceled, it is normally automatically renewed the next year.

Under the contract, the insured farmer agrees to insure all the eligible acreage of a crop planted in a particular county. This choice is made county by county and crop by crop. All eligible acreage must be insured to reduce the potential for adverse selection against the insurance provider. Adverse selection generally exists whenever the insured person has better knowledge of the relative riskiness of a particular situation than the insurance provider does.

The insurance provider agrees to indemnify (that is, to protect) the insured farmer against losses that occur during the crop year. In most cases, the insurance covers loss of yield exceeding a deductible amount. Losses must be due to unavoidable perils beyond the farmer's control.

Over the last few years, products that combine yield and price coverage have been introduced. These products cover loss in value due to a change in market price during the insurance period, in addition to the perils covered by the standard loss of yield coverage.

Crop insurance policies also typically indemnify the insured person for other adverse events, such as the inability to plant or excessive loss of quality due to adverse weather. The nature and scope of this "helper" coverage vary depending on the crop. This is because of the differences in crops individual natures.