Developing Insurance Protection for Stored Grain

By Jesse M. Dowell, A.F.M., ARA

Abstract

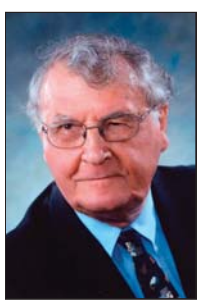
At least 30 states have some type of grain insurance fund to protect the owners of stored grain against bankruptcies. This article provides some historical perspective on how the legislation originated and how it still provides protection for those who contract storage in licensed facilities in those states with insurance funds.

In 1969 Illinois grain elevators needed a bond for only 15 cents per bushel to safeguard the owners of the grain the elevators had contracted to store. The grain owners included farmers, landowners, banks with loans to farmers and landowners, churches owning land, and other grain owners.

When a large grain elevator in Leroy, Illinois went bankrupt the 200 depositors (grain owners) waited for four years of legal proceedings in the federal court and then received only 75 percent of the fair market value for their corn.

As the farm manager for one of the owners involved in this payout, I began to think that there should be a safer way to protect those who stored grain in local elevators. At that time I headed the farm department of the Bank of Illinois in Champaign, a member of the Federal Deposit Insurance Corporation (FDIC).

I asked the senior vice president of this bank about the cost of FDIC membership. Using the rate charged for bank membership based on the assets involved, we calculated that the cost to insure grain through a Federal Grain Insurance Company (FGIC) amounted to about one-eighth of a cent per bushel for corn and one-fourth of a cent for soybeans.



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In 1973 corn was worth about $1 per bushel and soybeans $4 per bushel. So the cost of an FGIC insurance plan would appear to be small considering the limited risk and large volumes of grain and soybeans that could be involved.

At that time Edward Madigan was elected to the House of Representatives for our district in east central Illinois. I called Madigan and presented the FGIC plan to him. Although Madigan promised to study the issue, he never contacted me. Later that year Congressman Paul Findley who represented a district in western Illinois addressed the Illinois farm managers' fall tour.

I told Findley about elevator bankruptcies and suggested that through a federal insurance plan stored grain could be as safe as money in an insured bank. Findley and Congressman Tom Foley of Washington introduced H.R. 10209 in September 1979. Findley held public hearings through the major grain producing states. However, despite favorable reactions from grain producers, the bill died in subcommittee because Findley and Foley could not get enough support from other committee members.

When a large grain elevator in Madison, Wisconsin went bankrupt in 1975, Representative Les Aspin from that district reintroduced the grain insurance plan. But it also died in subcommittee. I felt at that time that a major disaster would be needed to get Congressional support for a grain insurance plan.

When the largest cooperative grain elevator in Champaign County, Illinois went bankrupt in 1983, many farmers lost millions of dollars. The local county farm bureau, using the FGIC plan as a guide, gained support to get the Illinois Grain Insurance Fund bill introduced in the state legislature. The House and Senate passed the Illinois Grain Insurance Act. Governor Jim Thompson signed the bill in front of an applauding audience at the Illinois State Fair in August 1983.

The Act created a fund through assessments of licensed grain dealers and warehousemen. The assessments are based on the capacity of the storage facility and the amount of bond required by state law. The fund is kept in a specific account to pay grain owners if an elevator goes bankrupt. If money in the fund is not sufficient to pay claims, the general assembly is required to appropriate the needed amount. If an elevator does not pay its required assessment, its state license can be suspended or revoked.[1]

Not one penny has been lost since this law protects grain owners against elevator bankruptcies. When a large grain elevator company in northern Illinois went bankrupt in 2002, the grain fund paid the $9 million loss to owners of grain in storage. The fund had to be replenished with help from the legislature and increased assessments from Illinois elevators.

The 100 percent safety record of the Illinois grain insurance plan has been noted. Across the country, 30 other states have created similar grain insurance funds. Some foreign countries have also noted this successful arrangement and are inquiring about its operations.

Endnotes

1 For complete details see, Illinois Grain Insurance Act, Rules and Regulations,, Illinois Revised Statues 1983, Chapter 114, Par. 701 et. Seq., Illinois Department of Agriculture, Division of Plant Industries and Consumer Services, Bureau of Warehouses, Springfield, Illinois 62794.

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