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Weekly Farm Economics: Privately Developed Crop Insurance Products and the Next Farm Bill

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Private parties have developed many crop insurance products offered by the Risk Management Agency (RMA)] through a 508(h) process. Herein, we describe that process and then illustrate some of the developed products. Many producers have gained useful coverage through these products. However, often in farm bill debates, there is an emphasis on changing the process, making it more challenging to bring a product to fruition. Doing so could reduce possibilities for advancing risk coverage in the future.

The 508(h) Process

Individuals and groups can develop specific insurance policies, provisions of policies, and rates of premium through a 508(h) process. Section 508(h) is part of the Federal Crop Insurance Act that allows private parties to develop insurance products (see here for more information from RMA).

Many developers begin with a Concept Proposal that is submitted to the RMA. Upon submission, a Concept Proposal is reviewed by at least two expert reviews external to RMA. RMA's Office of General Counsel also reviews the proposal. The Federal Crop Insurance Corporation Board — a wholly owned government corporation that administers the Federal crop insurance program — can then vote to approve the Concept Proposal. If approved, 50% of the expected research and development expenses associated with developing a full proposal can be advanced to the developers.

A full 508(h) submission can be developed with or without a Concept Proposal submission. A 508(h) submission defines all the elements of the proposed policy, including necessary handbooks (e.g., standards handbook, loss adjustments handbook). If required, premiums of the policy also must be provided, along with needed changes to computer systems to be able to offer the proposed policy. A market assessment of the potential use of the product also is provided. Altogether, those materials make for a lengthy document for submission to RMA.

Once RMA receives a 508(h) submission, it goes through a review process. That review process includes reviews by five external reviewers and an internal RMA review. The submitter has opportunities to respond to issues raised by the review. In the end, the FCIC Board decides on approval or disapproval of the project.

If approved, the privately developed product becomes part of RMA's offerings. Approved Insurance Providers (AIPs) administer these products, making them available to farmers and producers through crop insurance agents. These products are subsidized at rates set forth in the Federal Crop Insurance Act. In many respects, privately developed products look to producers like products developed by RMA. Developers are reimbursed for reasonable expenses associated with the development of the product.

Private Developed Products

Examining handbooks (here) associated with privately developed products provides a feel of the breadth of privately developed products. In addition, a list of developers of private products (here) is also available. Privately developed products can be divided into the following categories:

Enhancements to Traditional Programs: Many producers of corn, soybeans, wheat, rice, and other major crops purchase RMA-developed products such as Revenue Protection (RP), RP with harvest price exclusions, and Yield Protection. Many of these producers purchase enhancements such as:

- Trend Adjusted Actual Production History (TA-APH) Endorsement (*farmdoc daily*, March 15, 2022): This endorsement allows producers to increase the guarantee yield based on estimated trend adjustments that account for increases in yields over time. The vast majority of producers use this product.

- Margin Protection: Margin Protection provides protection against decreases in operating margins for corn, soybeans, wheat, and rice in select states. According to Summary of Business (SOB) records maintained by RMA, Margin Protection was used as a stand-alone product on 281,000 acres in the US in 2022. Margin Protection was used on an additional 3.2 million acres in conjunction with another COMBO product.

- Enhanced Coverage Option: The Enhanced Coverage Option provides county-level protection from 90% or 95% down to 86%. To be eligible, a producer purchases Revenue Protection (RP), RP with harvest price exclusion, or Yield Protection (YP) plan. According to SOB records, ECO was used on 8.6 million acres in 2022.

Livestock Insurance: Livestock insurance includes Dairy Revenue Protection, Livestock Risk Protection, and Livestock Gross Margin. These policies protect milk, dairy cattle, swine, fed cattle, feeder cattle, lamb, and swine. According to SOB records, total premiums totaled $845 million in 2022. Livestock policies accounted for 5% of total premium in 2022.

Additional Crops: Privately developed products have provided coverage for additional crops, including Annual Forages, APH Florida Citrus fruit, Apiculture, Apple Tree Dollar Plan, Area Yield Protection Sugarcane, California Citrus Tee, Caneberry, Clary Sage, Hemp, Hybrid Vegetable Seed, Macadamia Tree, Machine Harvested Cucumbers, Olive, Peanut Revenue, Pecan Tree, Popcorn Revenue, Pulse Crop Revenue, Specialty Soybeans, Sweet Potato, Texas Citrus Tree, and Triticale.

Overall, private products have provided valuable risk protection to farmers. Further advances are likely, including those related to practices such as the recently developed Post Application Coverage Endorsement (PACE, see *farmdoc daily*, January 18, 2022). This Endorsement provides protection for not being able to apply nitrogen post-planting.

Observations

Deliberations on the upcoming Farm bill could center on the 508(h) process. Some efforts could be placed on making the process more difficult. Critics of the 508(h) process object to some of the products developed. Others have suggested that some of the private products work for crops with small acres and small number of producers, and that development costs are high relative to the acres and producers served. However, making the process difficult likely will reduce crop insurance innovations. Overall, a review of previous products suggests that many products have been successfully developed through the 508(h) process. Adding difficulties could reduce advances in risk management.

Disclaimer: Members of the farmdoc team have been involved with the 508(h) process over time.

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