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EVOLUTION OF THE U.S. CROP INSURANCE PROGRAM

Dr. Thomas Worth
Chief Actuary
Risk Management Agency
US Department of Agriculture
April 2019

Early History – Before 1938

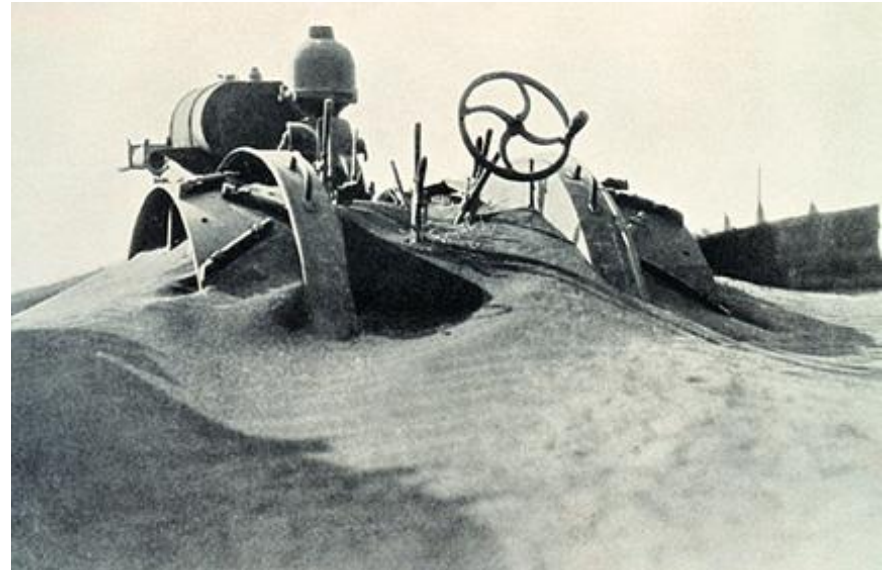
- Benjamin Franklin proposed the concept of crop insurance in 1788:
 - "It might be well to establish an office of insurance for farms against the damage that may occur to them from storms, blights, insects, etc. A small sum paid by a number would repair such losses and prevent much poverty and distress."
- 1880's: tobacco farmers in Connecticut formed the first organized crop insurance company, offering protection against losses from **hail**.

Before 1938

- Several attempts by private insurance companies to offer **multi-peril** protection
 - 1899: a company started in North Dakota and Minnesota
 - 1917: three companies attempted to insure crops in the Dakotas and Montana
 - 1920: a major attempt to insure crops by several larger auto insurance companies
 - Grains in the North and cotton and some other crops in the South
 - Quite unsuccessful.
 - 1930's: Two unsuccessful attempts in the 1930's in Kansas by small companies to insure against all risks.

1938 to 1948

- 1930's - the government was doing many things to help the public, including farmers
 - Great Depression, Dust Bowl (major droughts in 1934 and 1936)
- Leading private insurance representatives made it clear they could not meet this basic farm need



1938 to 1948

- The 1938 Agricultural Adjustment Act
 - Created the Federal Crop Insurance Corporation (FCIC)
 - Limited to wheat insurance - on a nationwide basis
 - Insurance was started 1939 winter wheat crop - cotton insurance was added for 1942
 - Administered within the Department of Agriculture
 - Insure yields only
 - A designated percentage of the average yield in the producer's area
 - Premiums charged to cover losses, administrative and delivery costs, and a reserve

1938 to 1948

- The 1938 Act also authorized capital for the FCIC
- Intended to serve as a revolving fund to enable the Corporation to pay all indemnities in full in the event losses are so widespread as to require more than the annual premium and the reserves built from premium income in prior years.

1938 to 1948

- Losses were heavy in the early years due to drought and widespread winterkill
 - High costs, low participation
- However, part of the excessive loss can be attributed to defects in the program that took some years to be corrected
 - As a result, some of the early features were changed
- 1943: Congress provided sufficient funds only for liquidation
 - There was no insurance on 1944 crops nor on the 1945 winter wheat crop planted in the fall of 1944.

1938 to 1948

- 1944: New legislation restarted the Crop Insurance program
 - Added flax as an insurable crop
 - Provided for experimental insurance on other commodities in not more than 20 counties each
 - The legislation was passed in time to insure spring planted crops for 1945 - spring wheat, cotton, and flax.
 - In addition, small experiments were started on corn and tobacco.

1938 to 1948

- The original policy permitted farmers to purchase insurance up until planting time, regardless of crop conditions
 - Sales date moved up (earlier)
- Reduced coverage if crop not harvested
- Prior to 1945, loss adjustment was the responsibility of a local committee of farmers
 - Since that time, loss adjusters directly responsible to the Corporation have performed this important function
- FCIC was authorized to reinsure private companies providing crop insurance
 - While there was some consideration of this by a few companies, none of them took advantage of this provision

1938 to 1948

- As a result of the new legislation and other changes made in the insurance and its operation
 - The financial experience improved greatly on wheat and the experience on flax, tobacco, and corn was satisfactory
 - However, large losses occurred on cotton insurance in 1945 and 1946, primarily as a result of droughts in the Southwest
 - By the end of 1946, over 3/4 of the original capital of \$100,000,000 had been lost.

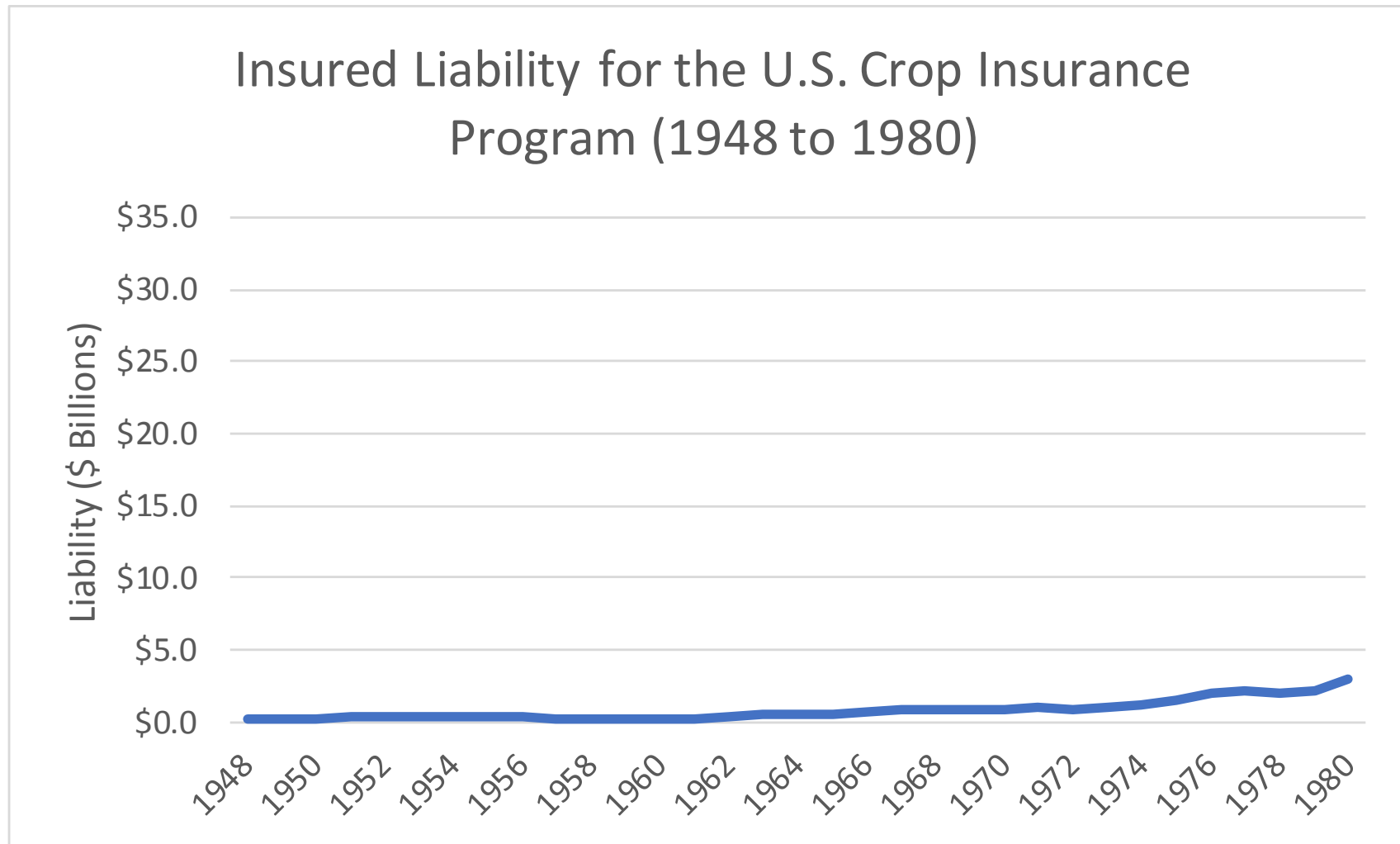
1948 to 1980

- 1948: Congress decided to reduce the program to an limited and experimental basis
 - Due to large losses
 - Only 375 county programs in 1948 compared to the 2,400 in 1947
- Present published reports do not carry the record beyond 1948
 - Congress, on several occasions, reviewed the program and authorized expansion of the number of counties where insurance is offered
 - Expansion was very limited in the early years but eventually was increased to a maximum 150 new counties and 3 new crops a year in 1964.

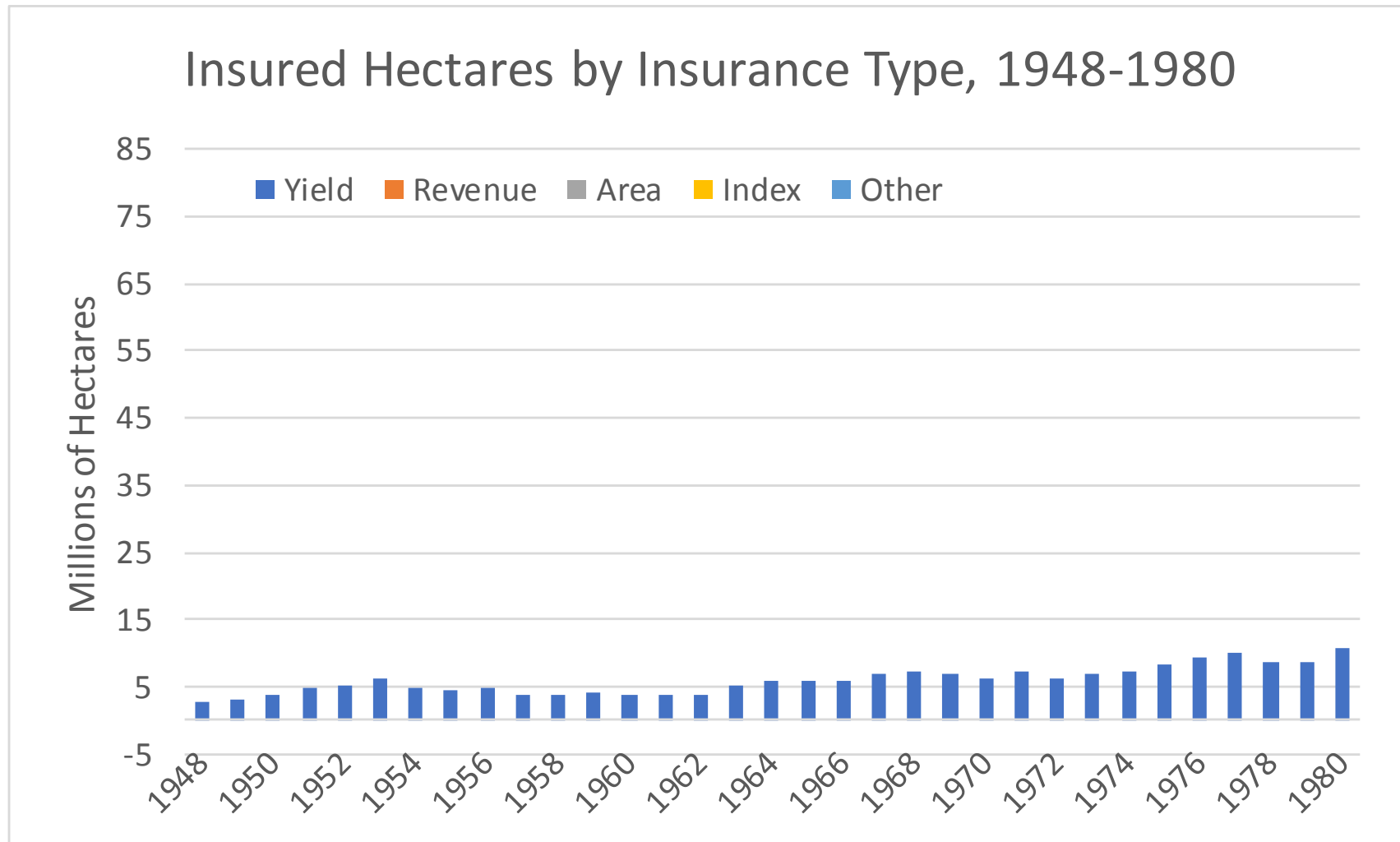
1948 to 1980

- Federal Crop Insurance continued to operate on an experimental basis
- There were amendments off and on throughout the years (1949, 1953, 1956, 1957, 1959, 1964, 1972, 1975, 1977)
 - But the major amendment was in 1980.
- Insurance was restricted, often limited to 60 percent or less of a long-term average yield for an area
 - Coverages and premium rates established an area basis

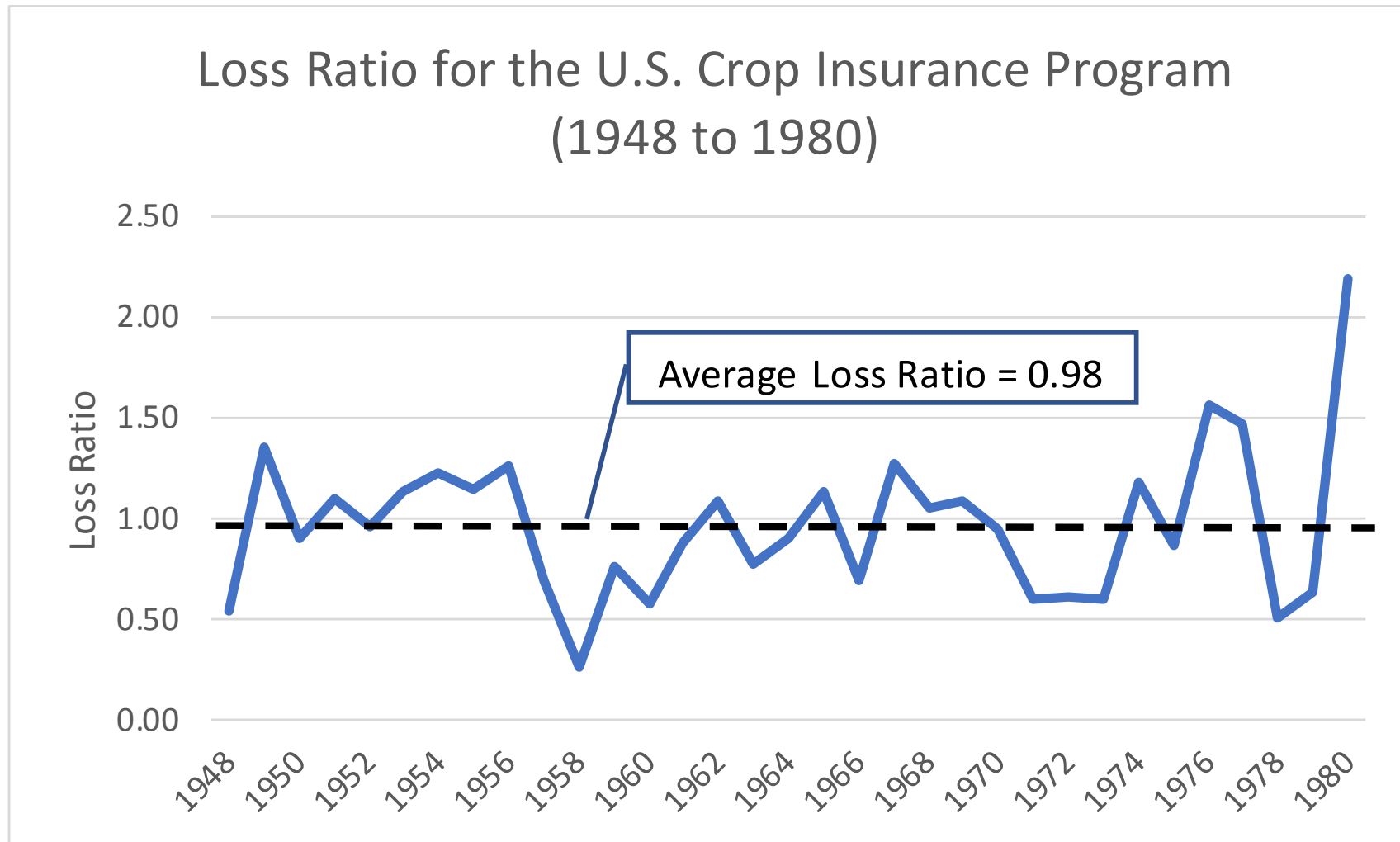
1948 to 1980



1948 to 1980



1948 to 1980



1980 to 1994

- 1980: Congress made major changes – beginning of modern program
- Goals:
 - Participation – share in premium cost, affordable for farmers
 - Efficiency – join with private sector to sell and service policies, share in risk
 - Actuarial Soundness
 - Replace ad-hoc disaster assistance

1980 to 1994

- Sell/service policies through local private insurance agents via direct contracts
- Provide reinsurance to private insurance companies who also sell/service contracts
 - All delivery costs paid for by the government
- FCIC pays up to 30 percent of the farmer's premium
- Choice of 3 levels of insurance coverage based upon an area plan (50, 65, and 75% - in 1993 a 35% coverage level was added)
- Pilot program of individual risk underwriting of crop insurance in not less than 25 counties
 - beginning in the 1981 crop year and ending after the 1985 crop year.

1980 to 1994

- Rapid expansion of the program from 1,670 counties and 28 crops into a nationwide insurance plan covering all farm commodities.
- The basic plan was to expand into an additional 250 counties in each of the next five years.
- Priority given to counties which produced the basic disaster crops.
- More gradual expansion was planned for 22 other crops which were already insured.

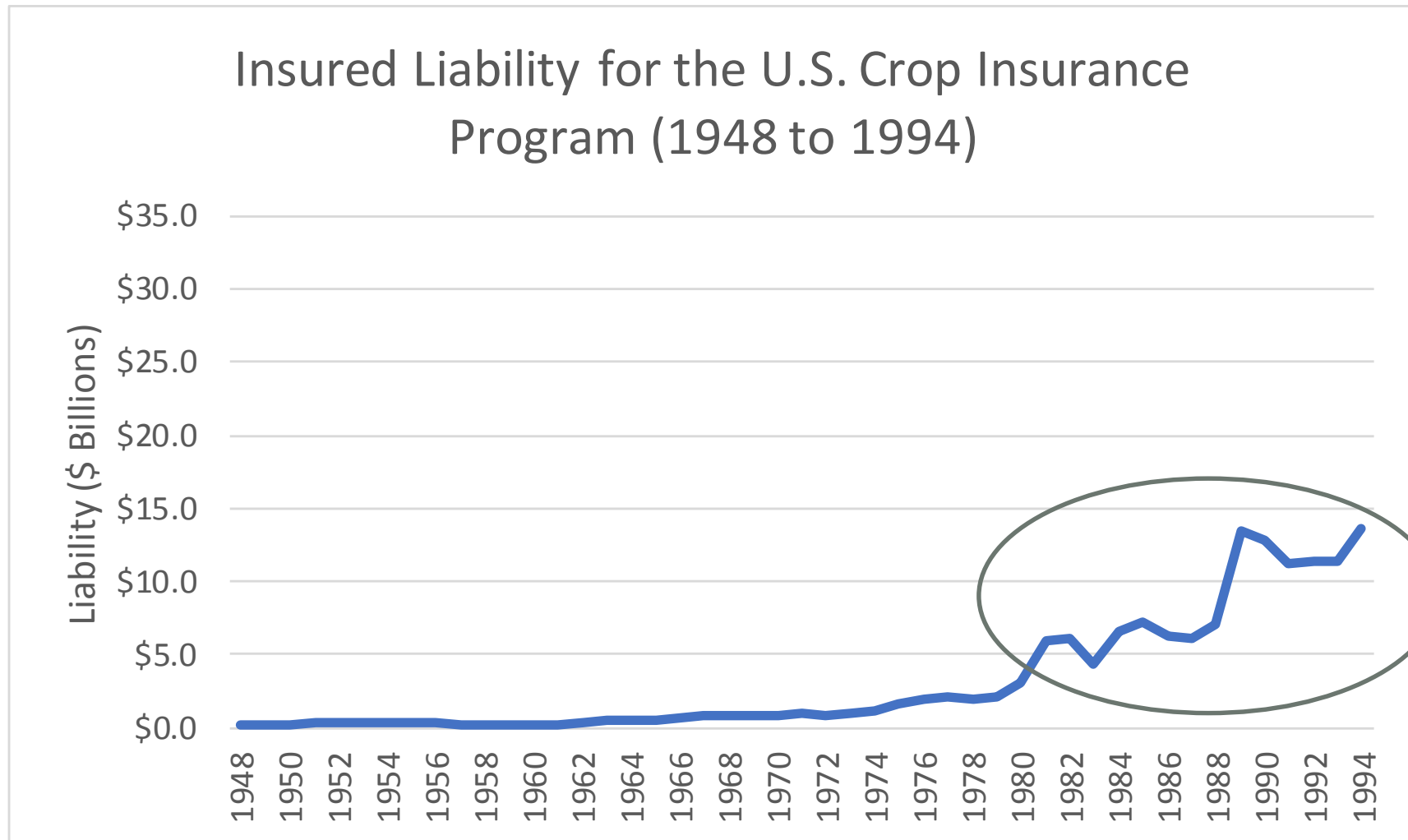
1980 to 1994

- 1985: Area coverage plan was eliminated
 - Guarantees were determined from the Actual Production History (APH) of an insured's farming operation
- 1990: FCIC authorized to require Social Security Numbers and Employee Identification Numbers as a condition of eligibility for participation in the program
 - Program integrity
 - Improved tracking of participation

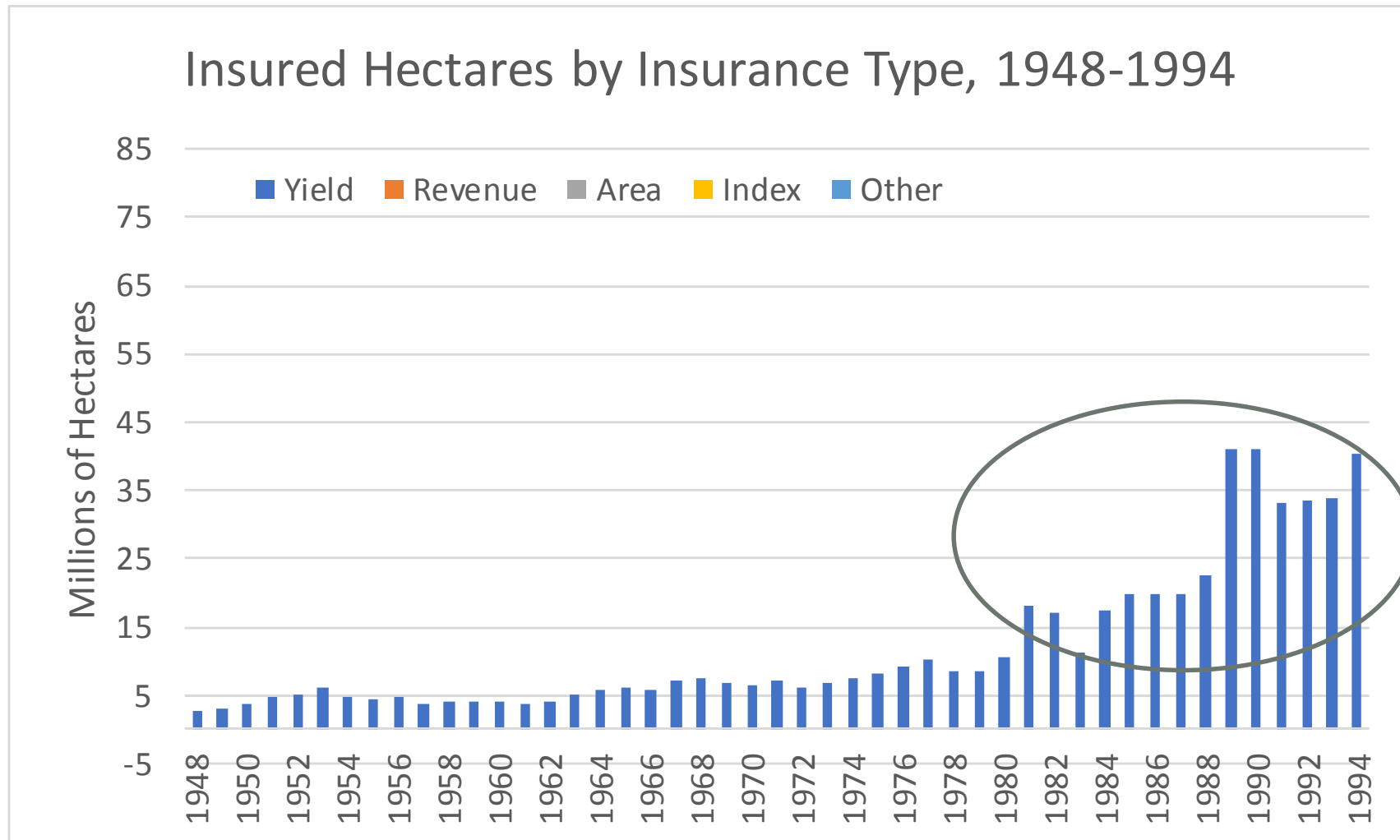
1980 to 1994

- 1993: Group Risk Plan (GRP) was introduced under authorization of the Act
 - Pilot program for soybeans in 96 counties
 - Pays only when the yield of an entire county drops below an expected county yield
 - Option for farmer -- APH or GRP
 - For the 1994 crop year, GRP was expanded into 7 additional crops.

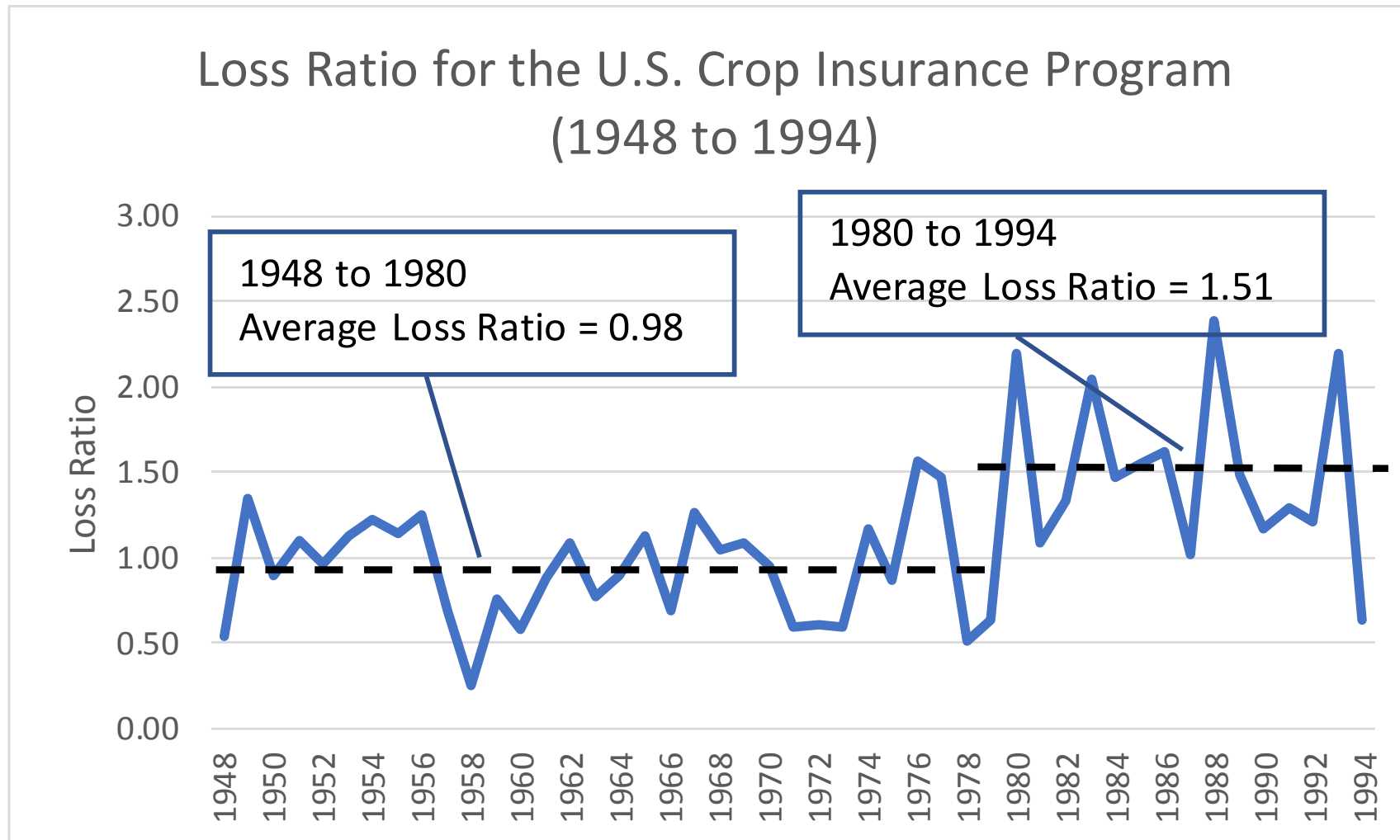
1980 to 1994



1980 to 1994



1980 to 1994



1994 to 2000

- Federal Crop Insurance Reform Act of 1994
 - Goal: Replace ad-hoc disaster with risk management
 - Repeals the authority to designate ad hoc disaster programs for crops as “emergency” spending under “pay-go” budget rules
 - Makes future disaster programs “on-budget” as opposed to an “off-budget”.
 - Requirement that farmers purchase crop insurance in order to qualify for other Federal commodity support programs (‘Linkage’)
 - Created fully-subsidized catastrophic (CAT) coverage
 - Increased government share of premium cost for higher levels of coverage

1994 to 2000

- Risk Management Agency (RMA) 'Blueprint' to improve program performance
 - More accurate insurance yields
 - 65% to 90% of county average used if fewer than 4 years of yield history
 - Database of taxpayer identification numbers
 - Tracking producers: reduce 'lost' yields, repeat/excessive losses
 - Tracking agents, loss adjusters
 - Improved premium rating process
 - Better quality data/database, external review of methodology
 - Individual risk classification, designation of high-risk zones (i.e. floodplains)
 - Rewrite insurance policies
 - Address unclear language, reduce vulnerabilities

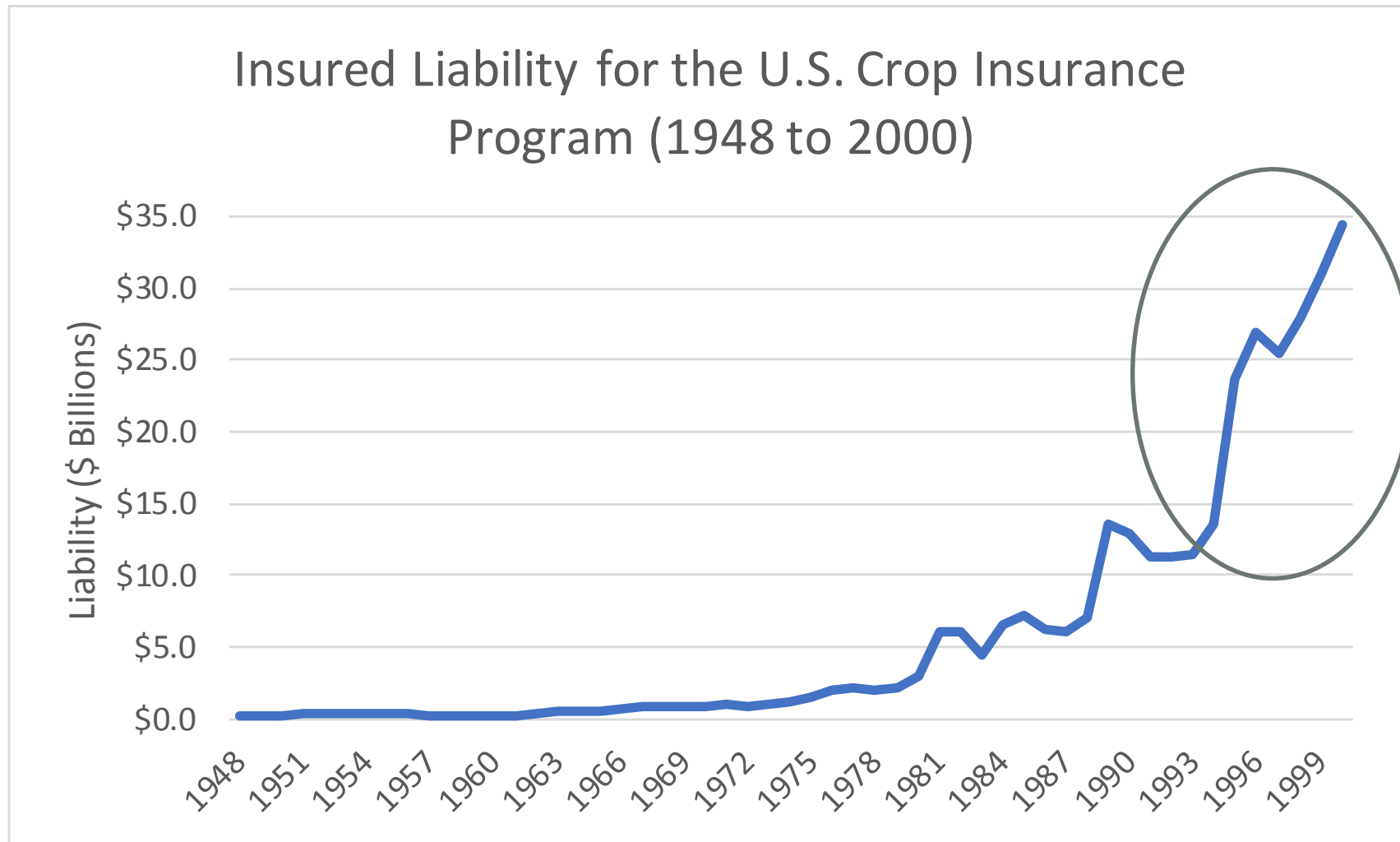
1994 to 2000

- Risk Management Agency 'Blueprint' to improve program performance (cont.)
 - Program compliance/integrity
 - Quality control requirements for insurance companies, reviews of claims
 - Review claims to improve policies
 - Increase risk retained by insurance companies
 - RMA pulls out of selling/servicing policies entirely
 - Develop uniform loss adjustment standards
 - Introduce new products
 - Diversify risk, improve participation

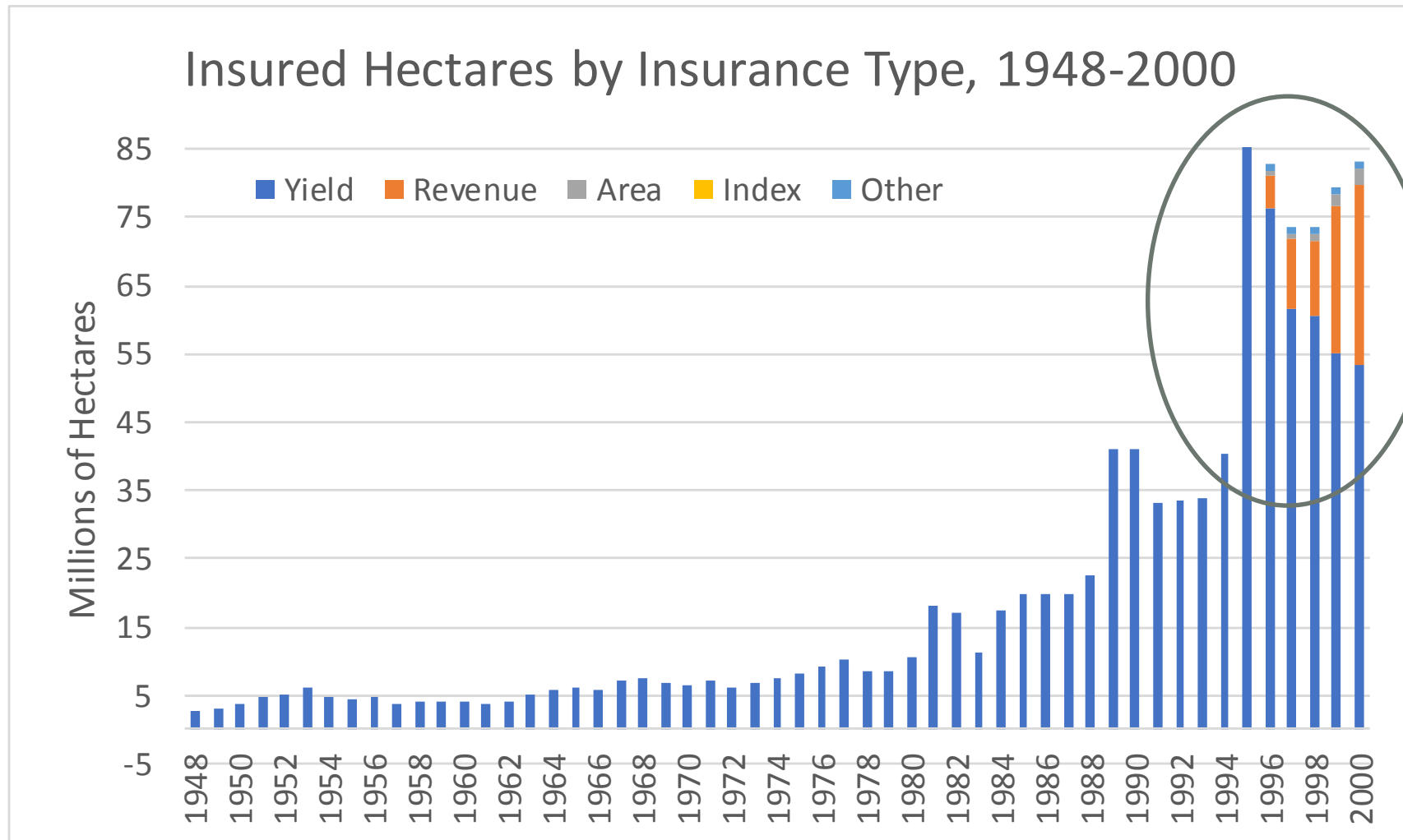
1994 to 2000

- 1996: Agriculture Market Transition Act ('1996 Farm Bill')
 - Focus on Education and improved risk management programs and strategies
 - The Farm Bill makes significant changes in the Federal Crop Insurance Program and provides the USDA with greater flexibility to enhance the crop insurance program
 - Provide revenue (price) coverage
- Ended “linkage” provided producers agree in writing to waive any eligibility for emergency crop loss assistance in connection with losses to any crop for which insurance is declined

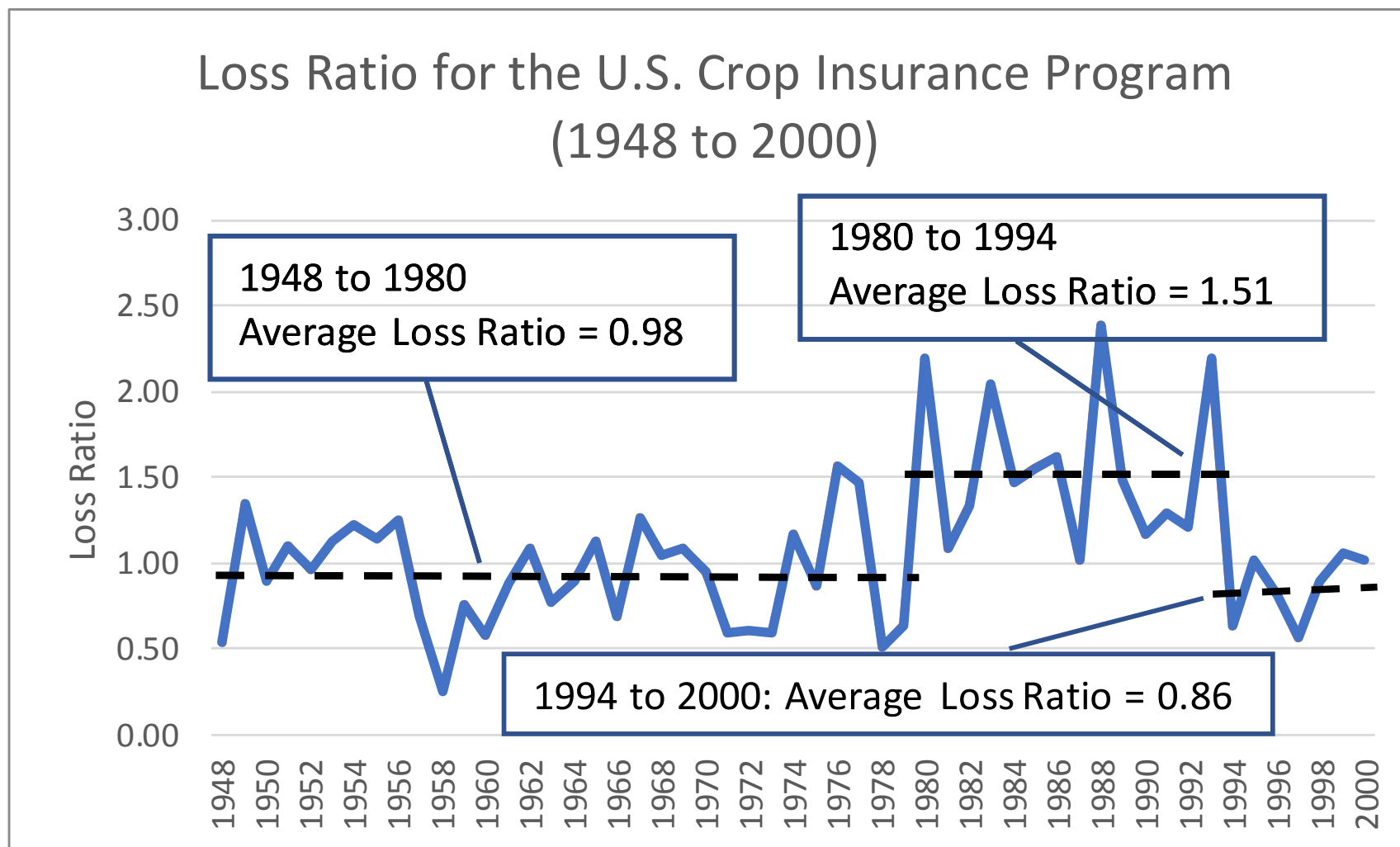
1994 to 2000



1994 to 2000



1994 to 2000



2000 to Present

- 2000: Agriculture Risk Protection Act
 - Increased government share of premium Schedule for higher levels of coverage
 - Assigned Yields and Actual Production History Adjustments
 - Decrease impact of a catastrophic year on average yield
 - Revision to prevented planting coverage
 - 65% reduction if farmer plants a second crop
- Review and Adjustment in Rating Methodologies

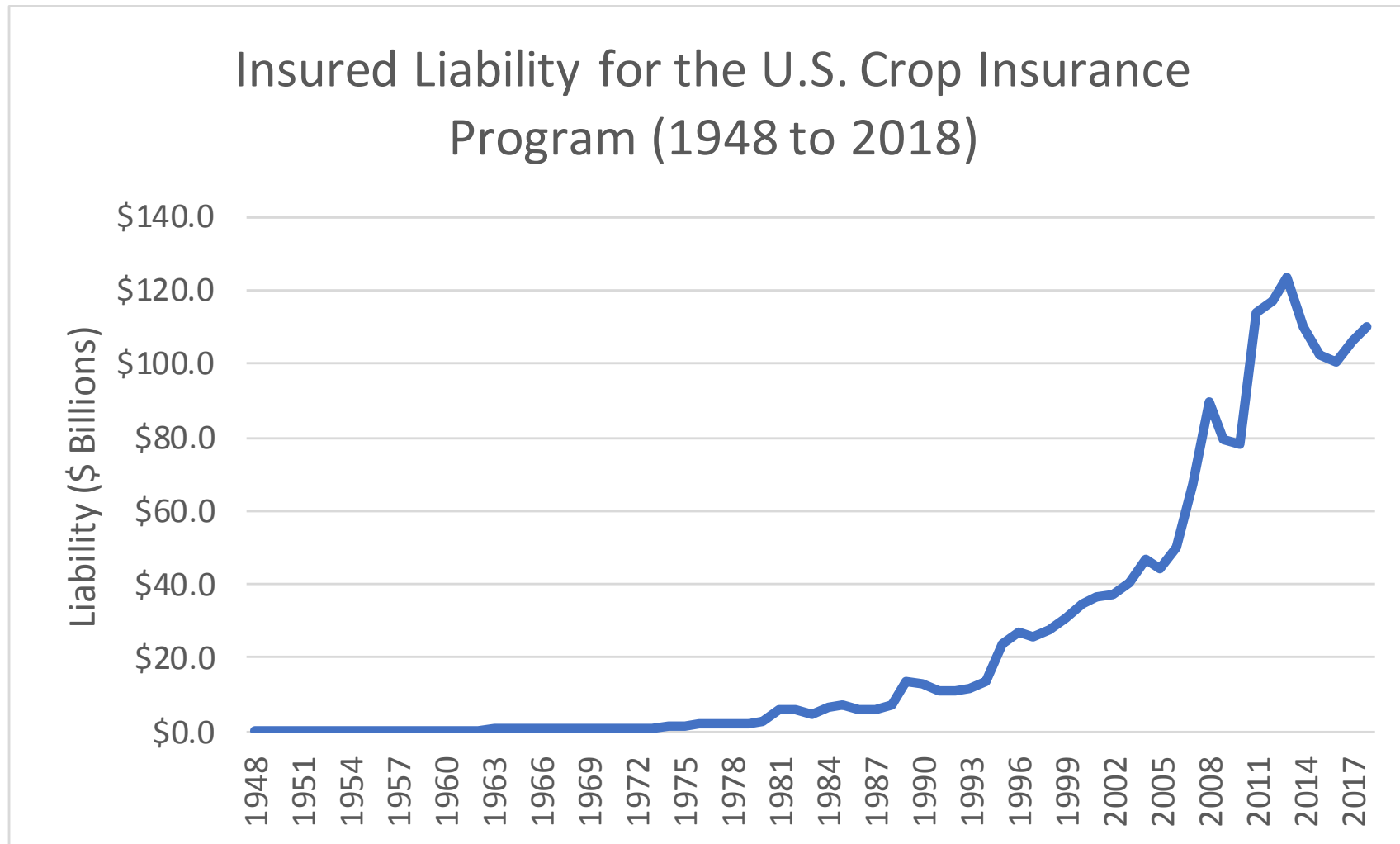
2000 to Present

- 2000: Agriculture Risk Protection Act (cont.)
 - Research and Development
 - Increase the quality and quantity of new insurance products
 - Private development, RMA contracts for research and development (over 70 new products)
 - Pilot Programs –expanded pilot authorities, including coverage for livestock
 - Education and Risk Management Assistance –competitive grants to educate producers
- Additional measures to address fraud, waste and abuse
 - FCIC work with other USDA agencies to reconcile producer information on an annual basis
 - Investigating claims of waste, fraud or abuse
 - Data mining

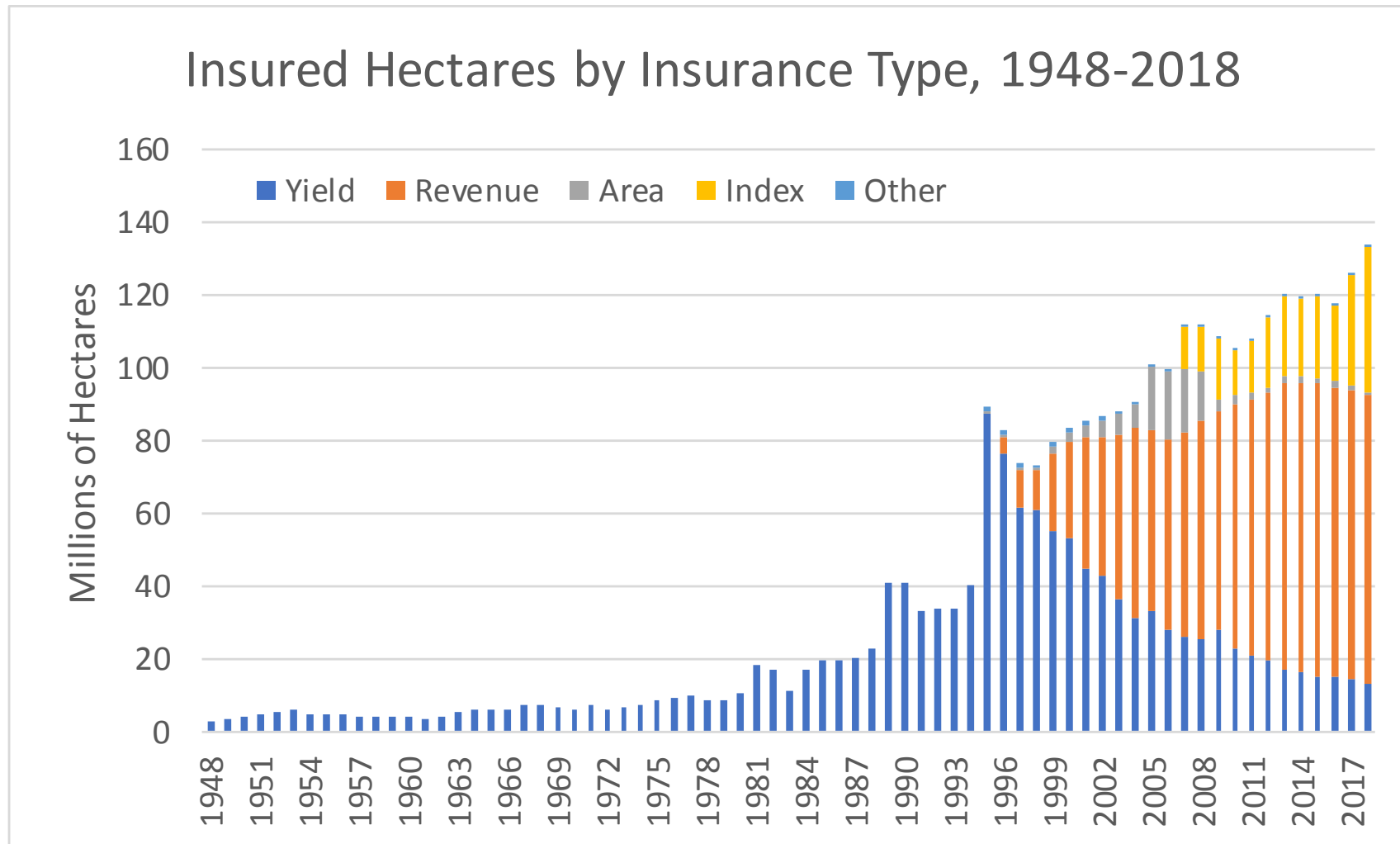
2000 to Present

- 2008 Farm Bill
 - Higher share of premium paid for 'enterprise units'
- 2014 Farm Bill
 - Supplemental area-based coverage for deductible
- 2018 Farm Bill
 - Only minor changes

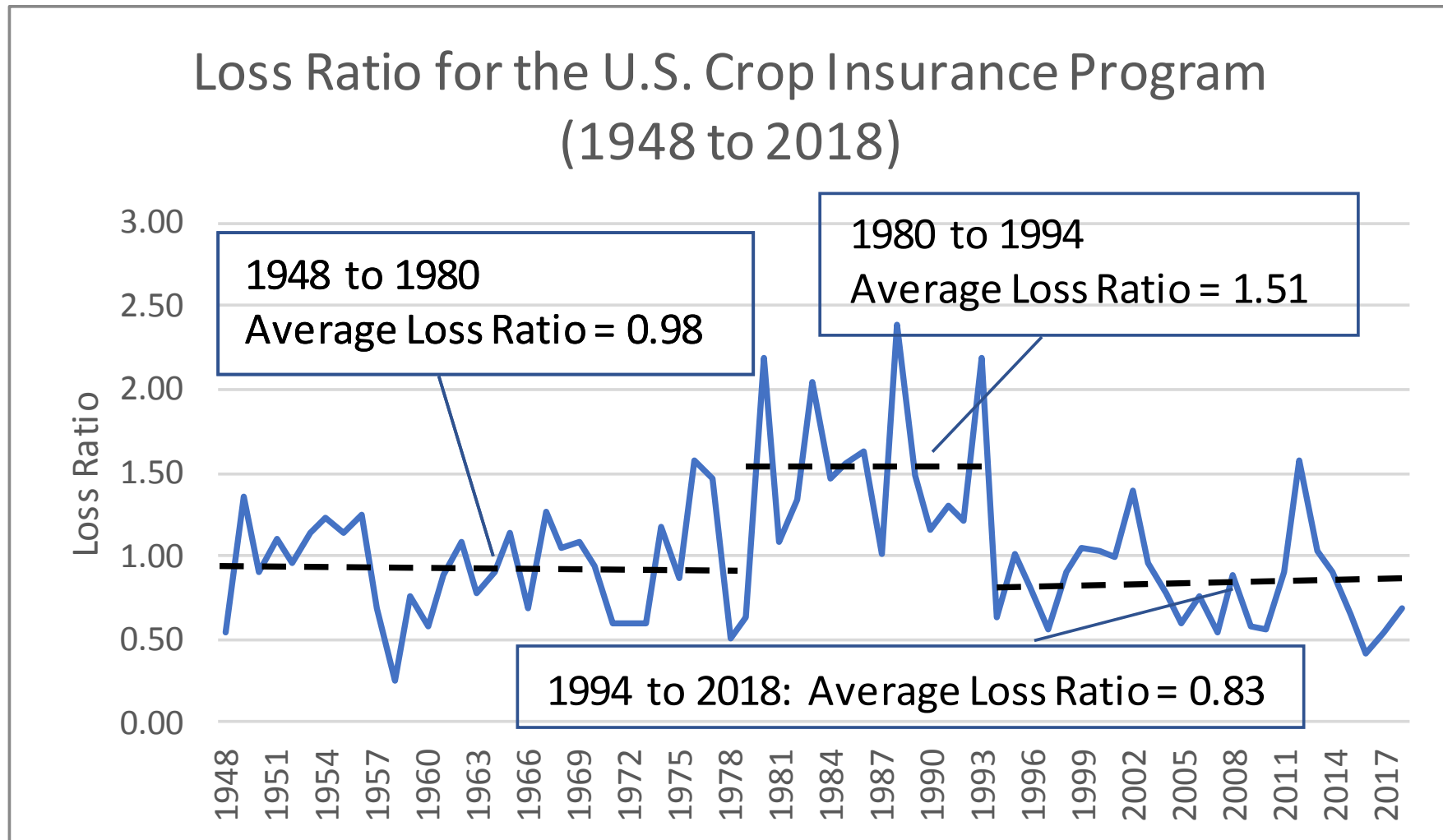
2000 to Present



2000 to Present



2000 to Present



Crop Insurance Today

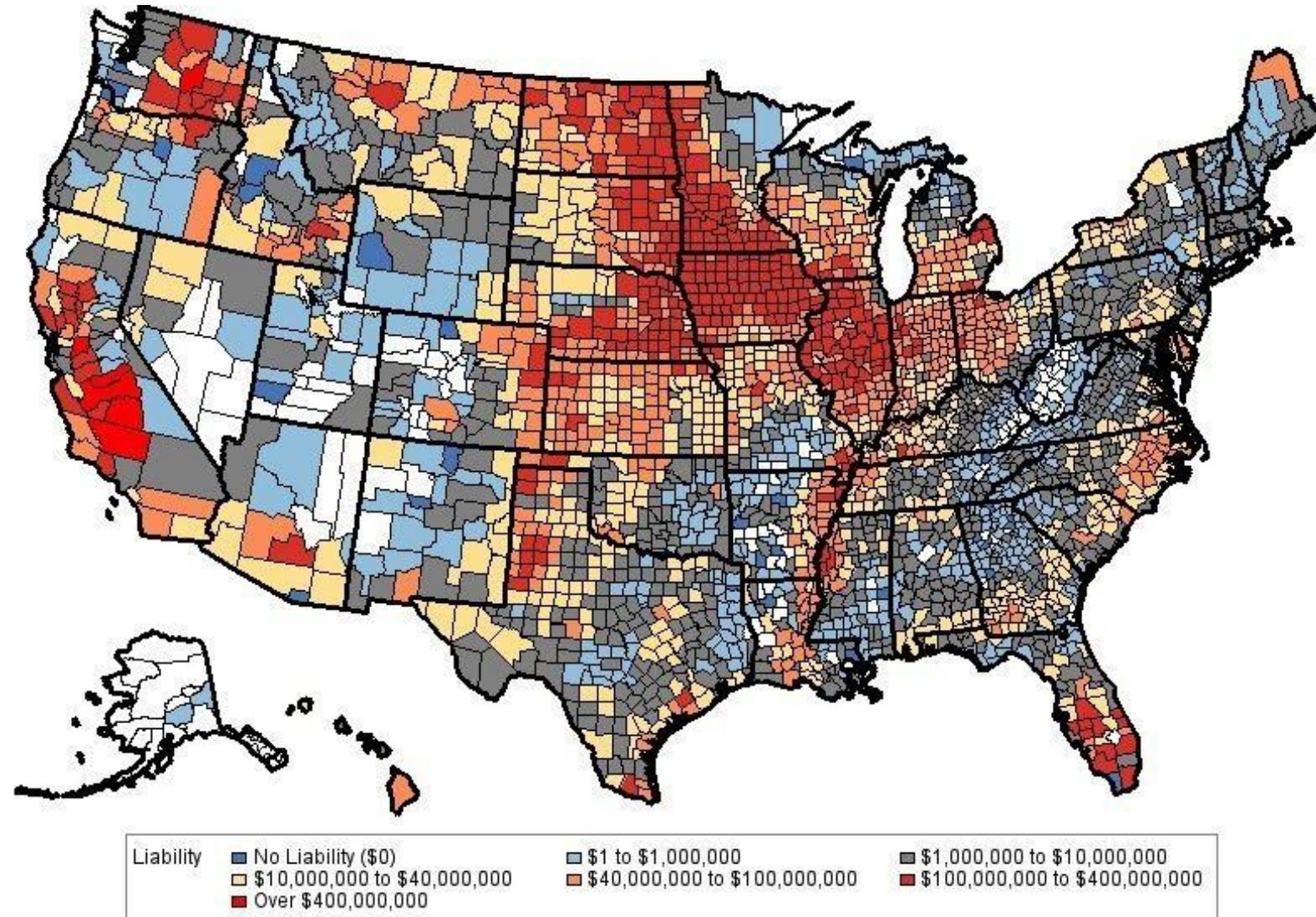
- Coverage available for over 540 varieties of crops
 - Up from 325 varieties of crops covered in 2000
- Most coverage purchased also includes price/revenue protection
- Premium cost is shared between farmers and government
 - \$9.3 billion in premium
 - \$3.5 billion paid by farmer
 - \$5.8 billion paid by government (63%)

Crop Insurance Market Share

- Principle field crops - 85 percent planted hectares insured
 - Barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat
- Other field crops - 61 percent
- Fruit and Nuts - 74 percent
- Vegetables - 36 percent
- Pasture/rangeland/forage/hay - 12 percent
 - Low market penetration but third largest crop based on hectares insured

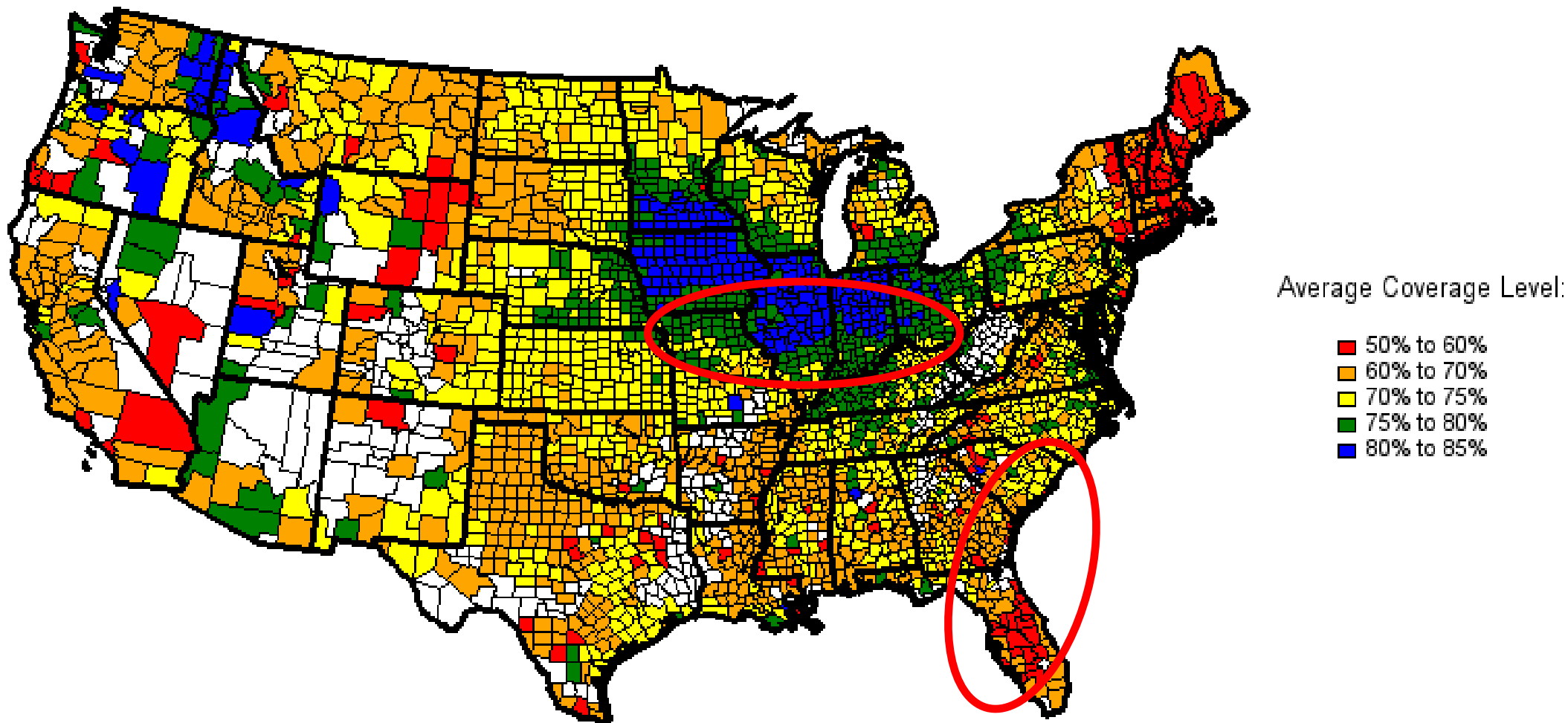


Insured Value of Crops (Liability)



Coverage Level

- Average Buy-Up Coverage Level – 2018 (Excludes Area-based Programs)



Conclusion

- Many difficult lessons
- Successes
 - High participation rate/coverage for major crops
 - No ad-hoc disaster in 2012 (2018?)
- Challenges
 - Underserved areas and crops
 - Northeast U.S.
 - Fruits, Vegetables
 - Direct Sales, urban agriculture, livestock, aquaculture
 - Lower market prices
 - Cost of production coverage

Thank you!

- www.rma.usda.gov

