A History of the Crop Insurance Program

http://www.rma.usda.gov/aboutrma/what/history.html

Congress first authorized Federal crop insurance in the 1930s along with other initiatives to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl. The Federal Crop Insurance Corporation (FCIC) was created in 1938 to carry out the program. Initially, the program was started as an experiment, and crop insurance activities were mostly limited to major crops in the main producing areas. Crop insurance remained an experiment until passage of the Federal Crop Insurance Act of 1980.

The 1980 Act expanded the crop insurance program to many more crops and regions of the country. It encouraged expansion to replace the free disaster coverage (compensation to farmers for prevented planting losses and yield losses) offered under Farm Bills created in the 1960s and 1970s, because the free coverage competed with the experimental crop insurance program. To encourage participation in the expanded crop insurance program, the 1980 Act authorized a subsidy equal to 30 percent of the crop insurance premium limited to the dollar amount at 65 percent coverage.

Although more farmers took part in the program after passage of the 1980 Act, it did not achieve the level of participation that Congress had hoped for. Therefore, after a major drought in 1988, ad hoc disaster assistance was authorized to provide relief to needy farmers. Another ad hoc disaster bill was passed in 1989. A third one enacted in 1992 gave farmers the option of claiming disaster losses on a farm-by-farm basis for any year between 1990 and 1992. An extremely wet and cool growing season in 1993 caused more losses, and Congress passed yet another ad hoc disaster bill. However, dissatisfaction with the annual ad hoc disaster bills that were competing with the crop insurance program led to enactment of the Federal Crop Insurance Reform Act of 1994.

The 1994 Act made participation in the crop insurance program mandatory for farmers to be eligible for deficiency payments under price support programs, certain loans, and other benefits. Because participation was mandatory, catastrophic (CAT) coverage was created. CAT coverage compensated farmers for losses exceeding 50 percent of an average yield paid at 60 percent of the price established for the crop for that year. The premium for CAT coverage was completely subsidized. Participants paid $50 per crop per county subject to maximum amounts for multiple crops and counties insured by the same individual. Subsidies for higher coverage levels were increased.

In 1996, Congress repealed the mandatory participation requirement. However, farmers who accepted other benefits were required to purchase crop insurance or otherwise waive their eligibility for any disaster benefits that might be made available for the crop year. These provisions are still in effect.

In the same year, the Risk Management Agency (RMA) was created to administer FCIC programs and other non-insurance-related risk management and education programs that help support U.S. agriculture.

Participation in the crop insurance program increased significantly following enactment of the 1994 Act. For example, in 1998, more than 180 million acres of farmland were insured under the program. This is more than three times the acreage insured in 1988, and more than twice the acreage insured in 1993. According to estimates by the USDA National Agricultural Statistics Service, in 1998, about two-thirds of the country's total planted acreage of field crops (except for hay) was insured under the program. The liability (or value of the insurance in force) in 1998 was $28 billion, the largest amount since the inception of the program. The total premium, which includes subsidy, and the premium paid by insured persons (nearly $950 million) were also record figures.

In 2000, Congress enacted legislation that expanded the role of the private sector allowing entities to participate in conducting research and development of new insurance products and features. With the expansion of the contracting and partnering authority, RMA can enter into contracts or create partnerships for research and development of new and innovative insurance products. Private entities may also submit unsolicited proposals for insurance products to the Board for approval. If approved by the Board, these unsolicited insurance products could receive reimbursement for research, development and operating costs, in addition to any approved premium subsidies and reinsurance. After three years the private entity may elect to retain ownership of the insurance product and charge a fee, as approved by the Board, to other insurance providers who sell the product or elect to transfer ownership of the product to RMA.

Restrictions on the development of insurance products for livestock were removed.

Authority was added to allow the Board of Directors to create an expert review panel to provide assistance to the Board in evaluating new insurance products for feasibility and actuarial soundness.

Premium subsidies were increased to encourage producers to purchase higher insurance coverage levels and to make the insurance program more attractive to prospective producers.

How the Program Works

The Crop Insurance Contract - 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.

Publication of Policies - Crop insurance contracts developed by FCIC are published in the Code of Federal Regulations (CFR). Policies may also be developed by commercial, private sector insurance providers. If approved by FCIC, privately developed policies may replace or supplement the policies developed by FCIC. However, these policies are not published as regulations. Instead, a notice of availability is published in the CFR.

Government and Private Sector Roles - FCIC's mission is to encourage the sale of crop insurance -- through licensed private agents and brokers --

to the maximum extent possible. FCIC also provides reinsurance (subsidy) to approved commercial insurers which insure agricultural commodities using FCIC-approved acceptable plans. Since 1998, the private insurance companies reinsured by FCIC have sold and serviced all Multiple Peril Crop Insurance authorized under the Federal Crop Insurance Act.

Since there is both public and private sector involvement in the crop insurance program, these relationships result:

A contract of insurance exists between insured farmers and their commercial insurance providers.

Premium rates and insurance terms and conditions are established by FCIC for the products it develops, or established with FCIC approval for products developed by insurance providers.

Reinsurance agreements (cooperative financial assistance arrangements) exist between FCIC and the commercial insurance providers.

The Yearly Insurance Cycle

RMA and insurance industry activities follow a timetable known as the insurance cycle. The cycle begins when RMA releases information about insurance products for the next crop year, and ends with changes to the program for the following year.