Crop Insurance in the United States

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Outline of Presentation

- How crop insurance works
- Scope of U.S. crop insurance program
- Participation
  - Premium subsidies
- How crop insurance is delivered
  - Administrative and operating subsidy and risk sharing
- New directions for crop insurance program
How Crop Insurance Works

- Annual enrollment prior to planting
- Coverage based on recent yield history, price forecasts or futures contracts
- Multiple-peril insurance
- Premium rates based on coverage and risk
- Indemnity paid if yield or revenue at end of season is below guarantee
Scope of U.S. Insurance Program

• Crop-by-crop coverage
  – Available for over 100 crops

• Variety of insurance plans
  – Yield or revenue
  – Area or individual farm
  – Asset (e.g., fruit trees, nursery)
  – Whole farm

• Range of coverage levels
  – Catastrophic (CAT): 50% yield at 55% price (50/55)
  – Buy Up: Any coverage level higher than CAT
    • Coverage from 50/60 to 85/100
Total Premium by Crop, 2006

- Corn (Maize)
- Soybeans
- Cotton
- Wheat
- Others

Total premium = $4.57 billion.
Total Premium by Insurance Plan, 2006

- Total Premium = $4.57 billion

Farm-Level Yield Plans
- Actual Production History
- Grower Yield Certification

Farm-Level Revenue Plans
- Crop Revenue Coverage
- Revenue Assurance
- Income Protection

Group Risk Plan

Group Risk
Income Protection

Other
Coverage Levels

• Catastrophic (CAT)
  – 50 percent yield guarantee
    • Indemnified at 55 percent of price (50/55)
  – Entire premium subsidized; farmer pays flat fee

• Buy Up
  – All coverage levels greater than CAT
    • Coverage levels range from 50/60 to 85/100
    • 65 percent yield or revenue guarantee most popular
    • Up to 85 percent coverage available for some crops
  – Portion of premium subsidized; farmer pays portion of premium plus small fee
Participation in Crop Insurance
Insured Acreage

**Premium Discounts**

- Increased Premium Subsidy Rates

**Million Acres**

- CAT
- Buy-up

Years:
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
Since 1998, Farmers Obtain Higher Coverage Levels

Proportion of Insured Acres

Coverage Level

Percent

1998 2002 2006

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RMA
Premium Subsidies Increase

Premium subsidies in 1999 and 2000 include premium discounts.
Crop Insurance Delivery
How Crop Insurance Is Delivered

• Policies sold and serviced by private insurance companies
  – Insurance agents paid sales commissions by company
  – Loss adjusters employed by company

• Administrative and operating subsidy paid to companies
  – Because premium reflects risk only, no overhead costs
  – Based on total premium sold by company
  – Rate varies by type of insurance

• Government provides first level of reinsurance
Subsidy Paid to Companies for Crop Insurance Delivery

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0 100 200 300 400 500 600 700 800 900 1000

Million Dollars

A & O Subsidy

Percent of Liability
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RMA
Government Reinsurance
Standard Reinsurance Agreement

- Annual agreement specifying risk sharing between companies and government
  - Also specifies administrative and operating subsidy rates
  - Last negotiated for 2005

- Companies designate crop insurance policies to reinsurance funds
  - Different level of risk in each fund
How Reinsurance Works

• For a company’s policies in each reinsurance fund-
  – Company retains/cedes different portions of premium and associated liability -- *Proportional reinsurance*
  – Government shares gains or losses on premium and associated liability retained by company -- *Non-proportional reinsurance*

• Reinsurance funds:
  – Assigned Risk fund--minimal retention and exposure
  – Commercial funds--maximum
  – Developmental funds--intermediate
    Sub-divided: CAT, Revenue, Other
Loss Experience and Risk Retention
Loss Ratio and Use of Assigned Risk, Selected Crops

Percent of total premium in Assigned Risk fund, 2005.
Reinsurance Reduces Variability of Loss Ratio

Loss Ratios, 1992 - 2005

Indemnities/Premium

- **All--Gross**
- **After Reinsurance**
Companies’ Retention Varies by Region

Percent of Total Premium in Assigned Risk Fund

Excludes counties with total premium less than $100,000.
Underwriting Gains
Underwriting Gains to Companies under the Standard Reinsurance Agreement
New Directions

- New crops
- New types of crop coverage
  - Continuing emphasis on revenue insurance
  - Expanded availability of whole-farm insurance
- Livestock products
  - Pasture, rangeland, and forage
  - Price protection products
Summary

• Variety of insurance plans and coverage levels
• Premium subsidies--insurance participation
• Private sector delivery of crop insurance
  – Administrative and operating subsidies
  – Reinsurance
• Program expansion beyond crop insurance
For More Information

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