FARM CREDIT CROP INSURANCE

Lending Support to Rural America

Risk Management in the Marketplace

What is Insurance?

The Transfer of Risk

Why is transferring risk important?

It allows us to better manage uncertainty and help protect our farm/business/wellbeing and we use it every day either intentionally or unintentionally

Risk Management in the Marketplace

What are the major kinds of risk faced by a farm business?

Production risk - The risk of lower quantity or quality of output;

Price or market risk - The risk of low output prices (or high input prices) or of limited market outlets;

Financial risk - The risk that debt cannot be repaid or that credit will not be available when needed;

Institutional risk - The risks that come from changing government policies; and

Human or personal risk - The risk that the business could be disrupted by illness, accident, death, or other personal problems.

Risk Management in the Marketplace

What is Crop Insurance?

Crop Insurance, or more accurately commodity insurance, helps manage these 5 farm risks in a variety of ways. Most commonly in addressing unforeseen "Acts of Nature" or market uncertainty, Multi-Peril Crop Insurance (MPCI) is used

Some of these "tools" are strictly market based while others include the producers historical averages or area based benchmarks and most are federally subsidized

Marketing and Disaster Assistance Programs can also be utilized

Risk Management in the Marketplace

- Most crop insurance products are managed and sold by private companies approved by USDA/RMA. Products not common, or disaster related, generally done directly through USDA/FSA
- Policy guidelines and provisions are created by Gov't and companies/agents follow/administer
- Changes often so best to work with agent to know current options (ex: Covid)

Risk Management in the Marketplace

- **Q. What are the major causes of crop losses in the United States?**
- A. No perfect measure of crop losses exists, but USDA's Risk Management Agency does have data on the sources of losses for claims filed under Federal crop insurance. Since 1988, about 40 percent of crop insurance indemnities have been due to drought; about 30 percent to excessive moisture, rain, or floods; about 10 percent to frost, freeze, and cold weather; and about 10 percent to hail. Note that uninsured crops might have somewhat different causes of loss. Also, causes of yield loss will vary by year, by crop, and by region.

Causes of Loss

Multi-Peril Crop Insurance (MPCI)

- **Adverse weather conditions** (drought, excess moisture, wind, hail, etc.)
- **Fire** (natural cause such as lightning)
- **Insects & disease** (must use proper control measures)
- **Wildlife**
- **Earthquake, volcanic eruption**
- **Failure of irrigation system** (must be due to one of the above - does not cover failure of equipment)
- **Price decline** – with revenue protection or other plans

Risk Management in the Marketplace

- **Q. For which crops is federally backed insurance available?**
- A. USDA's **Risk Management Agency** (RMA) has approved insurance coverage for more than 100 crops representing the great majority of the value of U.S. crop production. The Federal Government provides both a premium subsidy and reinsurance backing for these insurance policies. Some crops can be insured under a variety of existing plans, while others can be insured only under pilot programs of limited scope and duration. The **RMA Crop Policies web page** offers information on crops for which insurance is available, as well as instructions on how to obtain crop insurance.

Risk Management in the Marketplace

Commodities insurable?

MPCI- Course and small grain

Perennials- Apples, Peaches, Grapes

Livestock- Beef, Swine, Lambs, Dairy

Pasture Rangeland & Forage, Rainfall

Vegetables- Whole farm and single

Certain Aquaculture, Apiary

Risk Management in the Marketplace

- Home | RMA (usda.gov)
- Manage Your Farm Risk | RMA (usda.gov)
- National Fact Sheets | RMA (usda.gov)

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