AN INTRODUCTION TO CROP INSURANCE

CROP INSURANCE 101

Every day, hundreds of thousands of farmers spend long hours working the land or caring for their livestock so they can provide high-quality food at an affordable price for millions of Americans across the nation.

This amazing feat would not be possible without the critical safety net that crop insurance provides.

Farming presents a unique set of risks and a farmer's financial well-being relies on factors as unpredictable and varied as changes in weather, the spread of disease, or the rapid fluctuation of market conditions.

With such a wide variety of potential catastrophes and the likelihood that risk for any one particular event can be geographically concentrated – an entire county or area could see its growing season ruined within mere moments by a tornado, freeze, or other natural disaster – crop insurance requires some government involvement.

Coming on the heels of economic challenges and widespread disasters in the late 1970s, Congress developed the public-private partnership of Federal crop insurance to protect and support farmers and stabilize the economies of the rural communities that rely on agriculture, without leaving taxpayers solely financially responsible.

Under this successful model, farmers contract with any one of 12 private insurance companies – known as Approved Insurance Providers, or AIPs – authorized to sell and service crop insurance by the U.S. Department of Agriculture (USDA), paying a premium in order to protect their crops. These insurance companies work together with the USDA to improve the regulatory framework, improve program delivery, and expand participation.

While the USDA sets rates and rules for the various plans of insurance that can be sold by private insurance agents, it is the responsibility of these companies to write policies, as well as adjust and process claims. That means when disaster strikes, private industry can react quickly to assess damages and issue payments, providing farmers and the communities who rely on their income with relative stability.

For their part, farmers help fund their own safety net by collectively spending approximately $7 billion a year on premiums and shouldering billions more in deductible losses.

In addition to farmers, this public-private partnership requires private insurance companies and the Federal government to share the burden of risk. This risk-sharing arrangement incentivizes the private sector and the government to work together to reduce fraud, waste, and abuse.

Crop insurance also plays an important role in helping farmers respond to climate change by incentivizing good farming practices that increase resiliency, improve

conservation, and support a healthy environment. The dynamic nature of the Federal crop insurance program means that the program can quickly adapt to reflect farmers' risks and the adoption of proven climate-smart agriculture practices.

Today 2.54 million crop insurance policies protect 138 crops, covering more than 560 million acres in all 50 states. So, from clams to cranberries, soybeans to sunflowers, farmers can rest easier knowing that this safety net exists.

And while farms and agriculture-related industries add more than $1 trillion annually to the American economy and create work for nearly 22 million Americans, the cost for today's farm safety net represents less than one percent of the Federal budget.

In other words, crop insurance is a more than a worthwhile investment to ensure America's farmers and ranchers can continue providing food and economic opportunities for the nation.

CROP INSURANCE'S LEGISLATIVE HISTORY

Before Federal crop insurance was established, private insurers had difficulty providing affordable insurance products – other than hail insurance – to farmers. In 1938, Congress passed the Federal Crop Insurance Act, which established the first Federal crop insurance program.

These early efforts were not particularly successful due to high program costs and low participation rates among farmers. Along with limited availability and the lack of individualized coverage, among other factors, the program struggled to gain traction.

Congress recognized that other avenues of assistance were necessary and provided aid to farmers through direct payments and disaster assistance. But there remained a desire to achieve widespread participation in multi-peril crop insurance to help offset taxpayer risk and the high cost of direct support.

In 1980, Congress passed legislation to increase participation in crop insurance and make it more affordable and accessible. This modern era of crop insurance was marked by the introduction of a public-private partnership between the U.S. government and private insurance companies.

Bringing the efficiencies of a private-sector delivery system together with the regulatory and financial support of the Federal government formed the basis of a new and innovative approach to solving a long-standing problem.

While the 1980 Act expanded the program by increasing the number of commodities insured, participation remained lower than Congress had hoped as premiums remained high. Even as late as the early 1990's, crop insurance participation rates hovered in the 30 percent range and Congress was still depending on taxpayer-funded disaster aid to cover farmer losses.

Then, the Federal Crop Insurance Reform Act of 1994 dramatically restructured the program. And in 1996, the USDA's Risk Management Agency (RMA) was created to administer the crop insurance program. Through premium discounts built into new program guidelines, participation increased dramatically. By 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase over 1988.

Congress took another step towards improving and strengthening private-sector oriented risk management solutions in May of 2000, when lawmakers approved the

Agricultural Risk Protection Act (ARPA). The provisions of ARPA made it easier for farmers to access different types of insurance products including revenue insurance and protection based on hist orical yields.

ARPA also increased premium discounts for farmers' premiums to encourage greater participation and included provisions designed to reduce fr aud, waste and abuse.

These improvements worked and participation continued to climb, which was a good thing for farmers and taxpayers alike because in 2012, America's heartland faced a widespread drought reminiscent of the Dust Bowl era.

The system's performance during the 2012 drought, and the popularity of crop insurance among farmers, led Congress to take steps to make it a cornerstone of U.S. farm policy. The 2014 Farm Bill accelerated the evolution from traditional farm price and income support to risk management strategies, solidifying crop insurance as the primary tool for farmers in dealing with production and price risk.

That bill strengthened crop insurance by adding several new insurance products and improving coverage for specialty crop growers. Among the major enhancements to crop insurance was the addition of two supplemental policies to help producers expand their protection, along with new options for producers to protect and enhance their coverage.

Congress again took steps in the 2018 Farm Bill to continue strengthening crop insurance by making it more available for beginning and veteran farmers, as well as other improvements meant to improve research and expand coverage. The One Big Beautiful Bill in 2025 made further investments to expand coverage options, strengthen delivery, and ensure long-term integrity of the program. Now, more than 560 million acres are covered by crop insurance – a record enrollment that accounts for approximately 90 percent of major crop insurable acreage.

Over the years, crop insurance's success can be traced to many of its attributes, such as cost-sharing, and its contractual nature. And, the system's future success will be dictated by the ability to keep crop insurance affordable and available for farmers and economically viable for insurance providers.

COST-SHARING

Crop insurance is arguably the first farm policy in history that is significantly financed by the farmers who benefit from it.

Unlike farm policies of the past, which were 100 percent backed by taxpayers, the modern-day farm safety net requires growers to take an active role by sharing the risk and cost with the Federal government and insurers.

It's a concept found throughout the insurance industry. From the earliest shipping insurance at Lloyds of London in the late 1600s to the modern auto policy acquired via a smartphone app, the principal is the same.

A customer pays a premium to an insurance company based on the value of property, and predicted risks, to insure its worth. If the property is damaged, the customer absorbs a portion of the loss, called a deductible, and the insurance company covers the remainder through an indemnity payment.

The deductible acts as a deterrent to risky behavior and keeps the insurance policy intact for true disasters.

Meanwhile, premium dollars help customers pool resources to buy more affordable protection and fund the system that provides peace of mind.

The larger the pool of customers, the more risk can be spread, and the cheaper coverage becomes for all. The same applies to crop insurance, which is why it would be foolish to arbitrarily exclude any farmers from participation.

Since crop insurance's rise to prominence, farmers collectively pay approximately $7 billion a year out of their own pockets in premiums. And they absorb deductibles when disaster strikes, averaging 20-25 percent of the crop's expected value.

Farmers appreciate this arrangement because it offers more predictability for marketing and for borrowing capital, and because it gives them the opportunity to tailor protection to their farms' unique needs. Taxpayers reap the benefits too because they aren't responsible for the entirety of relief every time disaster strikes.

The 2012 drought is a prime example of how the cost-sharing structure operates. That year, farmers paid more than $4 billion in premiums from their own pockets, and like other lines of insurance, they also absorbed billions in deductible losses before receiving indemnities.

And the government wasn't required to fund the entirety of the indemnity cost either. Crop insurers shared in the risk, taking on losses as well. This arrangement helped prop up agriculture in one of the most challenging times in recent memory, and those benefits trickled throughout the rural economy.

An economic analysis by Farm Credit Services of America following the 2012 drought credited crop insurance with saving 20,900 jobs in Iowa, Nebraska, South Dakota, and Wyoming alone.

CONTRACTUAL BASIS

The 2012 case study illustrated how crop insurance can help take the politics out of disaster. That is because the rules of crop insurance are set ahead of disaster via contractual relationships, making the protection ex ante rather than ex post, as would be the case with disaster legislation.

The current crop insurance system is ex ante in the sense that all program stakeholders are required to proactively manage their respective risks long before disaster strikes. Government, via the RMA, along with the AIPs and crop insurance agents, enroll farmers prior to planting of the crop. Liability and premiums are established prior to the determination of indemnities.

Because of the contractual policy between the farmer and the AIP, the farmer knows coverage per acre, the policy deductible, and the policy's insured perils. And the AIP fully understands the rules of the system – including reinsurance terms and financial liability – because it has a business agreement known as the Standard Reinsurance Agreement, or SRA, in place with the Federal government.

This stands in stark contrast to ex post ad hoc disaster assistance in which some form of disaster determination must make its way through the political process. The farmer does not know if a loss is payable, and the timing of a payment is uncertain. The ex ante features of crop insurance are attractive from the perspective of both the government and the farmer.

And since the crop insurance system is operated by the private sector – employing more than 20,000 crop insurance agents, adjusters and staff who have a financial incentive to compete on service and continually improve efficiency – farmers receive assistance within 30 days of a claim being finalized.

CLIMATE-SMART AGRICULTURE

As farmers deal with new challenges – including a changing climate – it is important to maintain the integrity of the Federal crop insurance program. Crop insurance is farmers' front-line defense against climate change. That's because not only is it an important risk-management tool, but it also complements efforts to incentivize the adoption of climate-smart farming practices.

In fact, crop insurance requires responsible stewardship. A farmer who starves a crop of nutrients and water, plants late, or farms in a manner that jeopardizes the insured property would be ineligible for indemnities when the crop fails.

Good Farming Practices, or GFPs, are science-based production methods recognized by agricultural experts or organic agricultural experts and required by RMA as a condition of insurance. They are constantly monitored and improved to keep pace with new science and technologies, focused regional research, and changes in the market, weather, and land management.

GFPs help farmers address climate change and improve conservation practices, land management, soil health and water conservation, among other benefits.

Environmentally beneficial GFPs that have been adopted by agriculture and embraced by crop insurance in recent years include recognition of new drought-resistant seed varieties, more efficient irrigation systems, no-till planting, buffer strips, cover crops, and use of precision agricultural technology and equipment.

The Journal of Environmental Management published a peer-reviewed study that credited crop insurance with encouraging the adoption of conservation practices, such as cover crops. The study noted that RMA, following 2018 Farm Bill guidance, designated cover crops planted in 2020 and later as a GFP – a distinction that should help further promote the conservation practice.

Crop insurance is also a data-driven program, so when determining how much crop insurance protection can be provided and how much the premium will be, insurers look at a farmer's individual risk and historical production. This encourages farmers to use efficient production techniques and GFPs while avoiding planting on lands that are not suitable for their crop.

THE FUTURE

Despite the advancements made in crop insurance over the past 80+ years and the successes its produced in recent years, there are still some who want to weaken crop insurance through legislative channels.

Most recent attacks have been centered around attempts to lower or cap premium discounts, exclude some farmers from participation using arbitrary income means tests, and reduce the returns private-sector insurers can see from program delivery.

Many longtime farm policy observers see these attacks as shortsighted and fear they will return farm policy to the more difficult times of the past when taxpayers shouldered more risk. One such observer, Dr. Keith Collins, former chief economist for the USDA and former Chairman of the Board of Directors of the Federal Crop Insurance Corporation, warned against attacks that would undermine crop insurance's affordability, availability, and viability.

In a video message prior to his retirement, Collins explained the goal of maintaining affordability, availability, and viability. Below is a transcript of his message.

AFFORDABILITY AND AVAILABILITY

As a consumer, when you buy something you are concerned about its price and its quality. Price is essential in making a purchase decision. In crop insurance, the products were poorly priced in the early history of the program.

Premium rates were determined based on performance of counties and not what individual farmers did. Farmers in many instances were paying premiums that didn't reflect the risks. So, many farmers wouldn't participate because the pricing system wasn't good.

As the program grew and as more data was collected, rating systems were improved, and risk classification was improved. Today, premium rates much more reflect the producers' risk and therefore make crop insurance more attractive to a lot of producers.

Probably the most important factor, though, in affordability has been the premium discount, or the support that the public provides to farmers to [help them] buy crop insurance.

It's inescapable. You just look at the participation in the program, going from 50 million acres in 1981 to 294 million acres [in 2014]. You look at the fact that premium support has increased over that time. They're highly correlated.

So, the more support that has been provided, the more crop insurance producers have bought, and the better financially protected American agriculture is.

Affordability has been crucial for the demand for crop insurance because affordability means making it available across the crops that are produced in the United States. It means making it available in the regions where the crops are produced in the United States. It means making it available for all types of producers. And that's exactly what the program has done.

As an example, if you consider corn in a particular county like Champagne County, Illinois – that's considered one crop-county combination. How many crop county combinations are there in the crop insurance program? In 1997, were about 22,000. In 2014, over 62,000.

So, we've essentially tripled the product offering to American agriculture since 1997. Making the product available has been a key to success of the program.

VIABILITY

The success of today's crop insurance program has importantly hinged on private companies going out and selling a product to farmers [and] adjusting the losses in an accurate and fair way so that farmers know they're going to get top service when they buy a crop insurance policy.

For that to continue, the private companies that are doing this have to make a fair competitive rate of return. So, viability of the delivery system is critical.

If these companies are not making a fair and competitive rate of return, they're not going to have the capital needed to invest in information technology systems, to invest in the training for their agents to hire the sufficient number of agents all across the United States.

So, viability of the delivery system, refers to ensuring the financial performance of the companies. That is going to be very important to the crop insurance program going forward.

DO NO HARM

Collins' advice in 2014 to protect crop insurance's affordability, availability, and viability was clearly heeded as Congress moved into the 2018 Farm Bill debate while some farm policy critics targeted the system for cuts.

Every legislative attempt to weaken the farm safety net was soundly rebuffed, and lawmakers strengthened crop insurance by directing research for new products, promoting coverage for underserved producers, and improving the workability of various insurance programs.

And when it came to protecting crop insurance during the debate, lawmakers had a powerful ally in their corner: rural America.

In fact, more than 600 farm organizations, lenders, and rural businesses sent Congress a letter during the debate, stating: "We urge you to oppose harmful amendments to crop insurance, including those that would 1) reduce or limit participation in crop insurance, 2) make insurance more expensive for farmers during a time of economic downturn in agriculture, or 3) harm private-sector delivery."

The signers touted crop insurance as a proven risk management tool that enables growers to secure needed operating capital, and praised the program for its fairness, inclusivity, and speed of delivery.

"Crop insurance is food and fiber security insurance, and food and fiber security is national security," the letter concluded. "Given the importance of crop insurance, the undersigned organizations urge you to support America's farmers, ranchers, rural economies and national security by opposing amendments that would harm crop insurance."

In short: Do no harm to crop insurance.