

Crop INSURANCE

RMA's Response to Flooding & Crop Insurance Coverage

The following information is from USDA's Risk Management Agency website.

Q: Will the Risk Management Agency extend final planting dates because of the unfavorable planting conditions?

A: Most crop insurance policies cover policyholders who are unable to plant until after the final planting date, but at a reduced coverage level to reflect the additional risk of planting later. Studies show a greater chance of crop yield loss for planting later. Premium rates reflect the timeliness of planting, and the reduced coverage for late planting reflects the increased risk for yield loss.

Final planting dates are a term and condition of the insurance policy, and are part of the contractual agreement between policyholders and the approved insurance providers that deliver and service federally reinsured crop insurance policies. The policy specifies that all changes to the policy must be made by the contract change date.

USDA cannot extend planting deadlines because extending the deadline would be a change in the terms and conditions of the insurance policy after the contract change date. If USDA were to extend the planting deadlines, it would create a breach of contract. The Federal Crop Insurance Corporation is prohibited from waiving or modifying the terms of the policy except as provided in the policy. Any change to the contract at this time shifts risk to the approved insurance providers from previously negotiated financial commitments within the terms and conditions of the Standard Reinsurance Agreement.

Q: If I chose enterprise units can I now change to basic or optional units because flooding has damaged my planted crop acreage?

A: Establishment of unit structure is a term and condition of the insurance policy and part of the contractual agreement between policyholders and the approved insurance providers. Because unit structure impacts the premium cost, and in the case of enterprise units, also the premium subsidy, the policyholder's decision to elect enterprise units is made no later than the sales closing date to reflect the binding contractual agreement between the two parties when neither has the advantage of knowing the potential risk of loss.

Allowing a change now to the enterprise unit would likely create a guaranteed loss payment on the damaged acreage that may otherwise be off-set, to some degree, under an enterprise unit. This would be similar to lowering the deductible for a car or homeowner policy after a loss has occurred.

Changing the enterprise unit structure would be a contractual violation between the approved insurance providers and the policyholder, and leave the Government vulnerable to a breach of contract. Therefore, any change to the contract at this time shifts risk to approved insurance providers from previously negotiated financial commitments within the terms and conditions of the Standard Reinsurance Agreement.

Q: Can an on-site inspection be waived prior to completing a claim? If I am physically unable to get to a field for planting am I covered by prevented planting?

A: While on-site field inspections cannot be waived in their entirety, if the loss adjuster determines a

physical on-site inspection is impossible, the loss adjuster can document the circumstances and complete the claim.

For example, the loss adjuster makes an attempt to inspect the field but determines the insured acreage is underwater and would remain unplanted or the planted crop would be destroyed. Prevented planting payments can be made if an insured cause of loss resulted in there being NO way into a field that otherwise could be planted.

These types of cases are expected to be very limited. If there is any way into the field, even if it means the producer has to drive out of the way to reach the acreage, then the producer would be expected to do so if the field was dry enough to plant. Prevented planting payments would not be made if there was any access to the acreage. Producers, however, are not expected to go to extreme measures like airlifting equipment into a field.

Q: If I am prevented from planting by the final planting date, what are my choices under the terms of my policy provided I meet all other policy provisions and I do not qualify for double cropping?

A: You may:

- * Plant the insured crop during the late planting period, if applicable and insurance coverage will be provided. The late planting period is generally 25 days after the final planting date but varies by crop and area. For most crops, the production guarantee is reduced 1 percent per day for each day planting is delayed after the final planting date.

- * Plant the insured crop after the late planting period (or after the final planting date if a late planting period is not applicable), and insurance coverage will be provided. The insurance guarantee

will be the same as the insurance guarantee provided for prevented planting coverage.

- * Leave the acreage idle (black dirt) and receive a full prevented planting payment.

- * Plant a cover crop and receive a full prevented planting payment provided the cover crop is not hayed or grazed before November 1, or otherwise harvested at any time. If the cover crop is hayed or grazed before November 1, the prevented planting payment on the first crop is reduced to 35 percent of the first crop prevented planting guarantee.

- * Plant another crop (second crop) after the late planting period or after the final planting date if no late planting period is applicable, and receive a prevented planting payment equal to 35% of the prevented planting guarantee.

Q: If my first insured crop was planted and failed, what are my choices under the terms of my policy provided I meet all other policy provisions and I do not qualify for double cropping?

A: There are several considerations:

1) If it is not practical to replant the first insured crop:

- * The acreage may be left idle (black dirt), or planted to a second crop and not insured, and receive a full indemnity for the first insured crop;

- * Plant and insure a second crop and receive a 65% reduction in indemnity for the first insured crop--the policyholder pays 35% of the premium for the first insured crop;

- * If there is not a loss on the second crop, the policyholder will receive the remaining 65% of indemnity on the first insured crop and pay the full premium on the first insured crop; or

- * If the second crop receives an indemnity, the first crop indemnity remains at 35% and the second crop indemnity is fully paid (no reduction). The policyholder may choose to not accept the second crop indemnity and receive a full indemnity on the first insured crop.

2) If it is practical to replant the first insured crop and it is not replanted, no coverage for the first insured crop will be provided.

3) If it is practical to replant the first insured crop and the first insured crop is replanted, a replanting payment will be made and coverage for the first insured crop will remain at the production guarantee.

Q: Will there be significant rate increases for the 2012 crop year because of the flooding in 2011?

A: In general, premium rates reflect historical experience over an extended period of time and any losses from the 2011 crop year will not likely be reflected in any premium rate adjustments until the 2013 crop year or later.

The amount of any loss within the county will be considered in the context of historical losses over the long term, often 20 to 30 years or longer, which generally reduces the premium rate impacts of any one year. However, land that was flooded in 2011 due to the breaching or breaking of a levee will likely be considered high-risk land with potential premium rate increases for the 2012 crop year until the levee is repaired and the land is brought back to its former level of productivity.

Source: USDA Risk Management Agency, June 10th, 2011.