
Risk Management Tools: Basics of Crop Insurance

What are the basics when purchasing crop insurance, and what are the risks and related risk management practices?

Federal Crop Insurance

Following uncontrollable natural disaster and economic losses from the 1930s, Congress first authorized what is commonly called *Federal* crop insurance. Federal crop insurance is a fleet of insurance policies designed to cover economic losses in agriculture due to unexpected events. In 1938, the USDA established the [Federal Crop Insurance Corporation](#) (FCIC), <https://cropinsuranceinamerica.org/about-crop-insurance/history>. FCIC is constructed to provide innovative risk management products to farmers and ranchers through research and development. Throughout the period from 1938 to 1980, federal crop insurance was a very small program. But with the passing of the 1980 Federal Crop Insurance Act, crop insurance expanded greatly to more crops and regions. Participation has continued to increase significantly, as changes have been made to the cost-sharing structure (premiums, subsidies, etc.) among the federal government, crop insurance companies, and agricultural producers.

In 1996, the [Risk Management Agency](#) (RMA) was [created by the USDA](#), www.rma.usda.gov.

The purpose of RMA was to:

1. provide risk-based, market-driven management tools to stabilize and/or strengthen agricultural producers and their communities; and
2. administer the FCIC programs.

RMA partners with private crop insurance companies, known as [Approved Insurance Providers](#) (AIP), <https://public.rma.usda.gov/AipListing/InsuranceProviders>, who sell and service federal crop insurance products for both crops and livestock. RMA sets up and reviews the crop insurance policies, as well as the premiums charged for the policies. Both RMA and the AIPs share the underwriting risks of a catastrophic loss (due to natural weather events) to both production yields and operating revenue (price × yield) covered by crop insurance

policies. By offering this public-private partnership, RMA is committed to increase the availability and effectiveness of federal crop insurance as a [risk management tool](#), www.rma.usda.gov/About-RMA/History-of-RMA.

In Iowa, federal crop insurance covers just short of 22 million acres, which is nearly 94% of the total 2018 planted corn and soybean acres in [Iowa](#), www.rma.usda.gov/RMALocal/Iowa/State-Profile. Historically, federal crop insurance is the backbone of disaster protection to manage the producers' risks against yield and revenue loss. Information on traditional federal crop insurance programs is readily available. The following discussion focuses on three newer or underutilized risk management tools that also serve as agricultural production safety nets.

Supplemental Coverage Option (SCO)

The 2014 Farm Bill introduced the [Supplemental Coverage Option](#) (SCO), www.extension.iastate.edu/agdm/crops/html/a1-44.html. SCO is an endorsement to the traditional federal crop insurance policies that was re-authorized in the 2018 Farm Bill. SCO offers a narrow loss revenue protection to cover a portion of the producer's deductible. Like other federal crop insurance products, SCO is administered by RMA, when purchased through a private crop insurance agent.

SCO coverage is based upon county yields and revenues, which is a slight departure from traditional farm-based insurance coverage. For the producer to be eligible for SCO, they must choose the Price Loss Coverage (PLC) program from the 2018 Farm Bill. [PLC](#) is a USDA FSA administered program, www.farmers.gov/sites/default/files/documents/FSA-FarmBill2018_WhatsNew-19.pdf, outside the federal crop insurance program. The [Ag Decision Maker Farm Bill Analyzer](#), www.extension.iastate.edu/agdm/info/farmbill.html, is an educational decision tool designed to help producers make their Farm Bill program (Agriculture Risk Coverage versus PLC) decision.

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Whole-Farm Revenue Protection (WFRP)

A second risk management tool is Whole-Farm Revenue Protection (WFRP). This customized coverage provides (up to \$8.5 million in insured revenue) a safety net for all commodities (livestock or crops produced or purchased for resale; excluding timber and forest products and animals grown for sport, show or as pets) on the farm under one policy.

Revenue loss indemnification, including replant coverages, can include specialty or organic commodities (both crops and livestock). WFRP covers [revenue loss](#) due to unavoidable natural causes, www.rma.usda.gov/Policy-and-Procedure/Insurance-Plans/Whole-Farm-Revenue-Protection. Revenue loss is figured on the duration of the producer's tax year (the insurance period), generally, the calendar year. A notice of loss is required within 72 hours of the discovery that operating revenue would fall short of insured revenue. A completed and filed tax return (typically a Schedule F or a substitute) are required to submit a claim.

WFRP is not catastrophic risk protection. Coverages range from 50%-85%, as determined by the Farm Operation Report, and is the lower of expected revenue and whole-farm historic average revenues. WFRP coverages can be purchased alone or as an add-on to other federal crop insurance policies.

Iowa agents indicate WFRP, though potentially a solid risk management program, has not experienced marked growth for two key reasons:

1. concerns associated with the confidentiality of required tax information; and
2. WFRP claim benefits are generally paid one year in arrears.

Watch the [accompanying video](https://vimeo.com/352805809), <https://vimeo.com/352805809>, for further information on the **basics of crop insurance**.

Noninsured Crop Disaster Assistance Program (NAP)

Unlike the two earlier risk management tools, the USDA FSA administers the [Noninsured Crop Disaster Assistance Program](#) (NAP), www.fsa.usda.gov/programs-and-services/disaster-assistance-program/noninsured-crop-disaster-assistance/index. This safety net is used when other crop insurance policies are not available, and specifically lists other ineligible agricultural commodities.

NAP provides basic coverage equivalent to catastrophic level risk protection (from natural disasters), using form CCC-471, when filed by the respective crop's application deadline (varies by crop). Loss indemnification begins when the loss exceeds 50% of the expected production (at 55% of average market price). Higher levels of coverage (5% increments; up to 100% average market price) are available at additional premiums. Producers should contact their crop insurance agent for questions regarding eligibility.

In addition to the premium, purchasers of NAP incur a service fee (\$325 per crop per county; \$825 per producer per county; producer maximum of \$1,950). Beginning, limited resource or under-served producers may seek waivers of service fees or up to a 50% reduction to NAP insurance premiums.

Written by Gary Wright
farm management field specialist
gdwright@iastate.edu

712-223-1574

www.extension.iastate.edu/agdm

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