RISK MANAGEMENT AGENCY

United States Department of Agriculture

Crop Insurance in the United States

International Conference on
“Farm Insurance as a Risk Management Tool”
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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

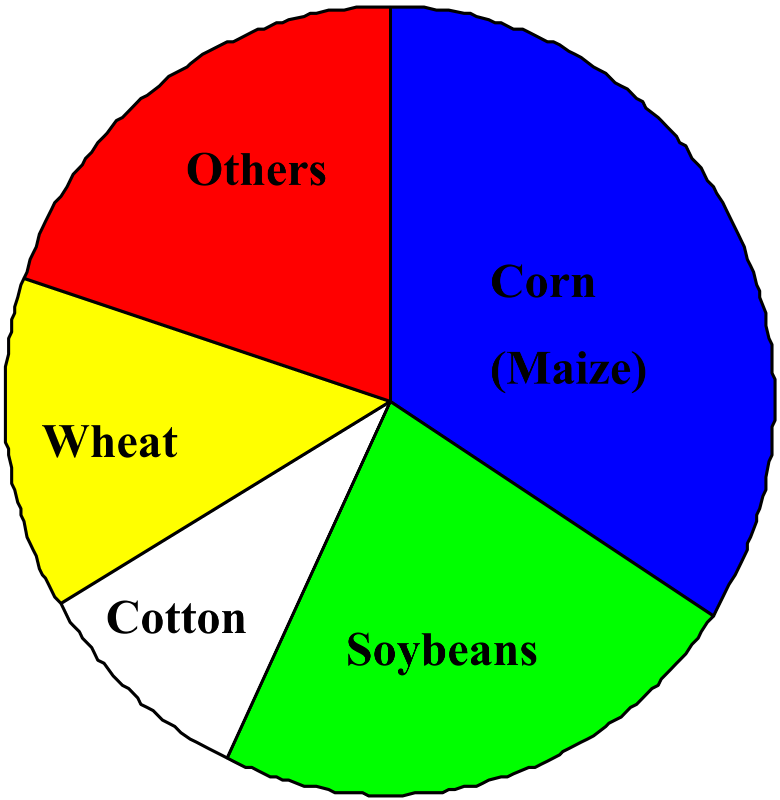
How Crop Insurance Works

- 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

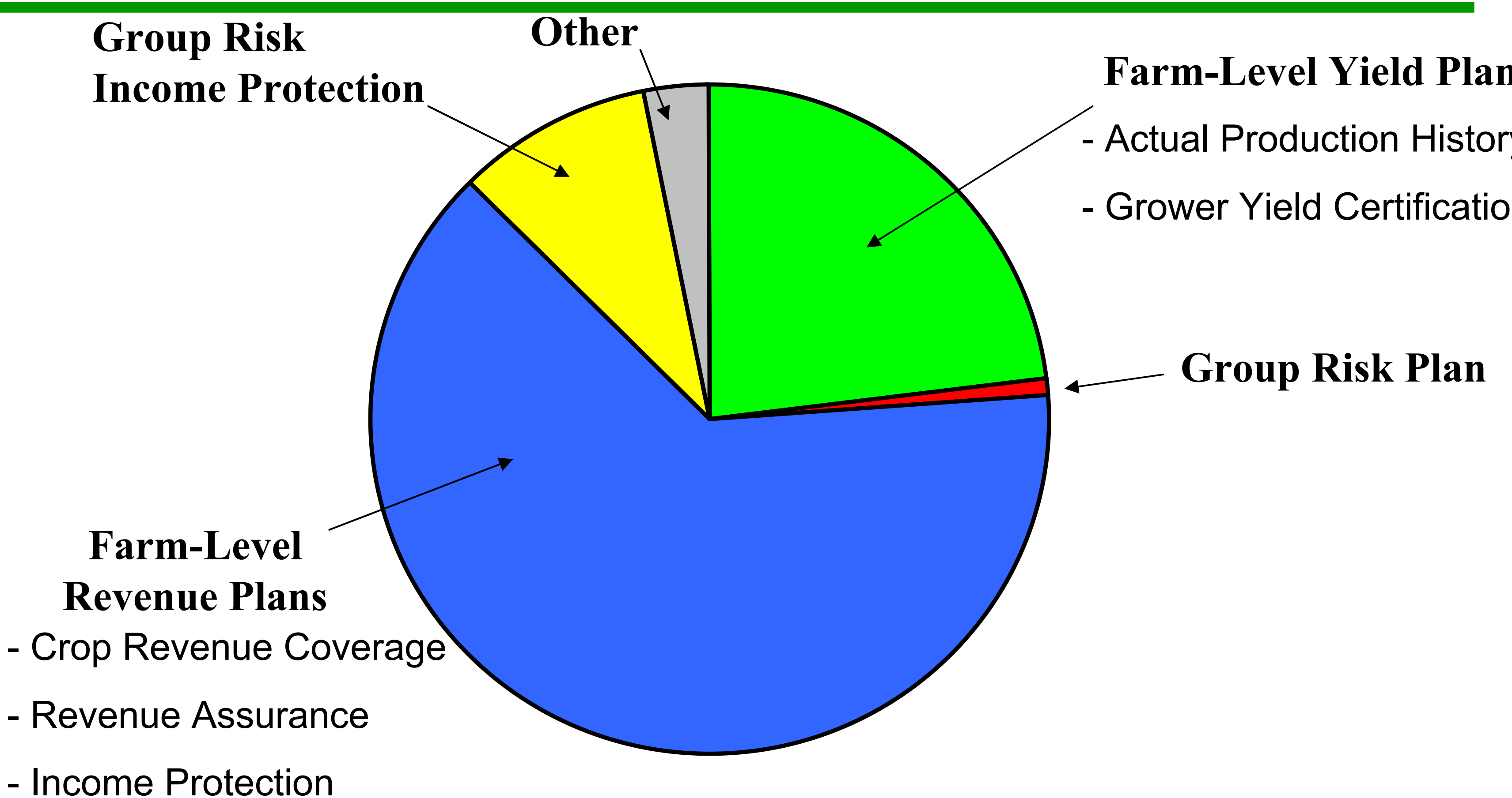
- Crop-by-crop coverage
  - Available for over 100 crops
- Variety of insurance plans
  - Yield or revenue
  - Area or individual farm
  - Asset (e.g., fruit trees, nursery)
  - Whole farm
- Range of coverage levels
  - Catastrophic (CAT): 50% yield at 55% price (50/55)
  - Buy Up: Any coverage level higher than CAT
    - Coverage from 50/60 to 85/100

Total Premium by Crop, 2006



Total premium = $4.57 billion.

Total Premium by Insurance Plan, 2006



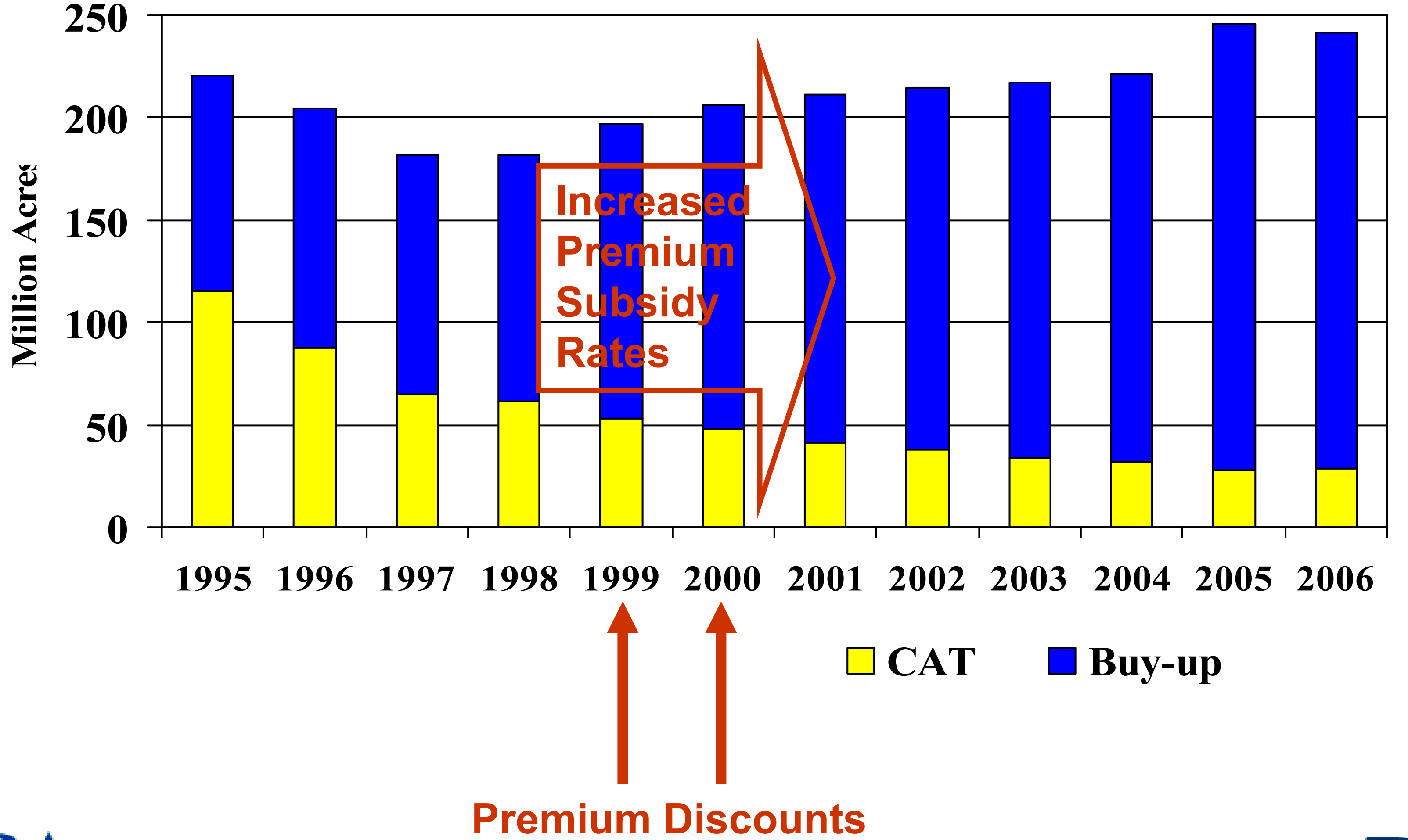
Total Premium = $4.57 billion

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

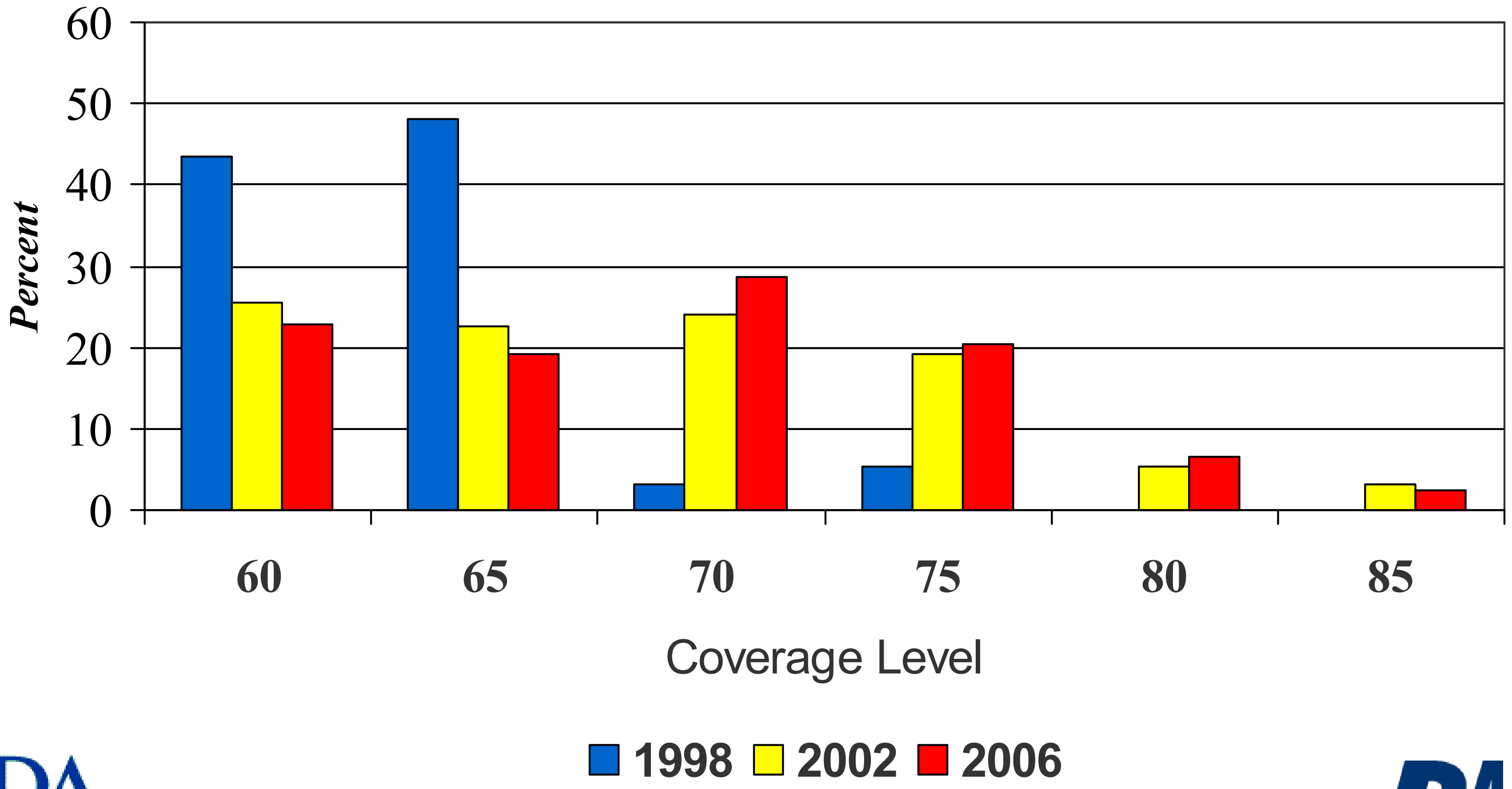
Participation in Crop Insurance

Insured Acreage

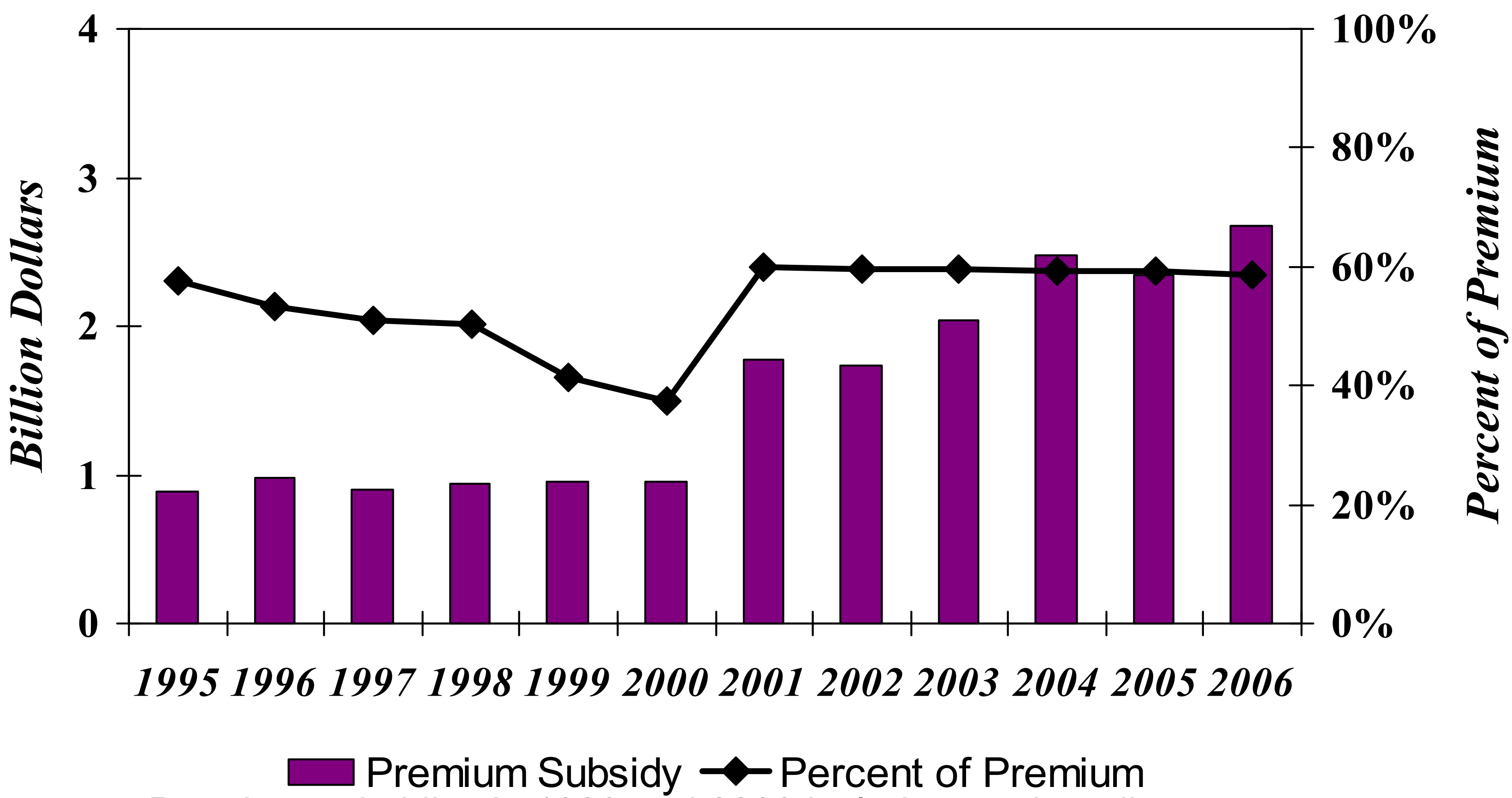


Since 1998, Farmers Obtain Higher Coverage Levels

Proportion of Insured Acres



Premium Subsidies Increase



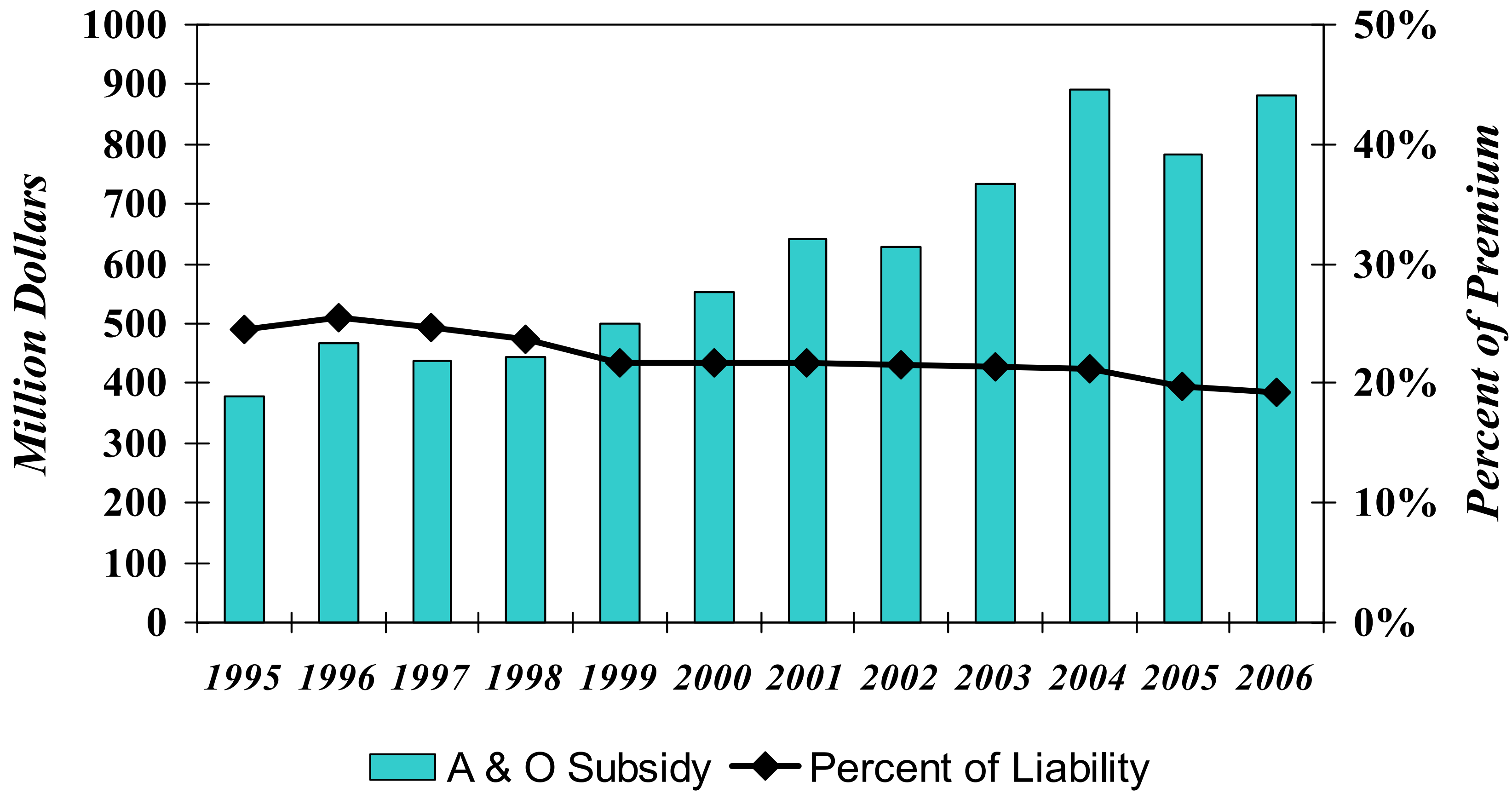
Premium subsidies in 1999 and 2000 include premium discounts.

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



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*

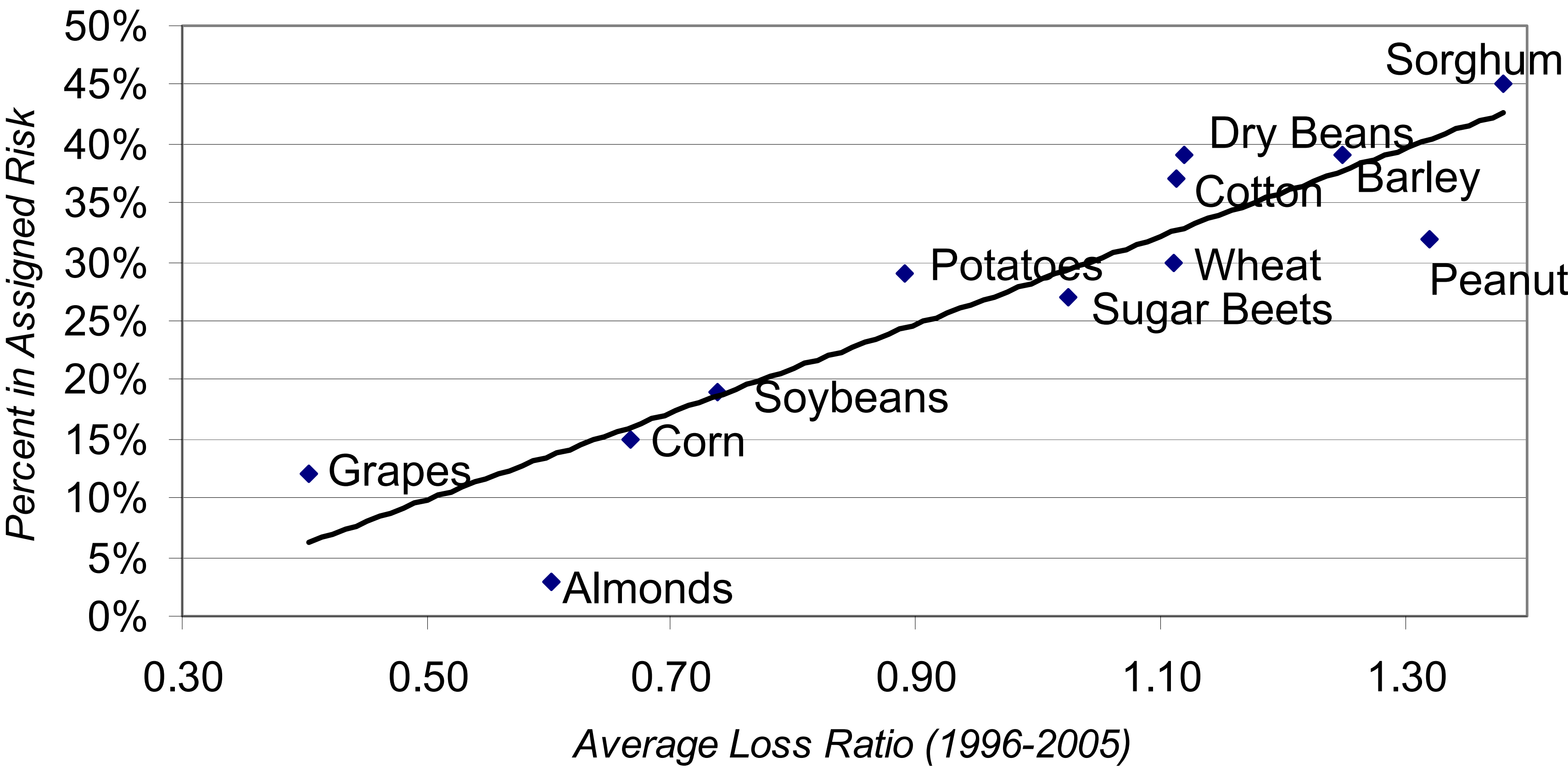
- Reinsurance funds:
  - Assigned Risk fund--minimal retention and exposure
  - Commercial funds--maximum
  - Developmental funds--intermediate

Sub-divided:

CAT, Revenue, Othe

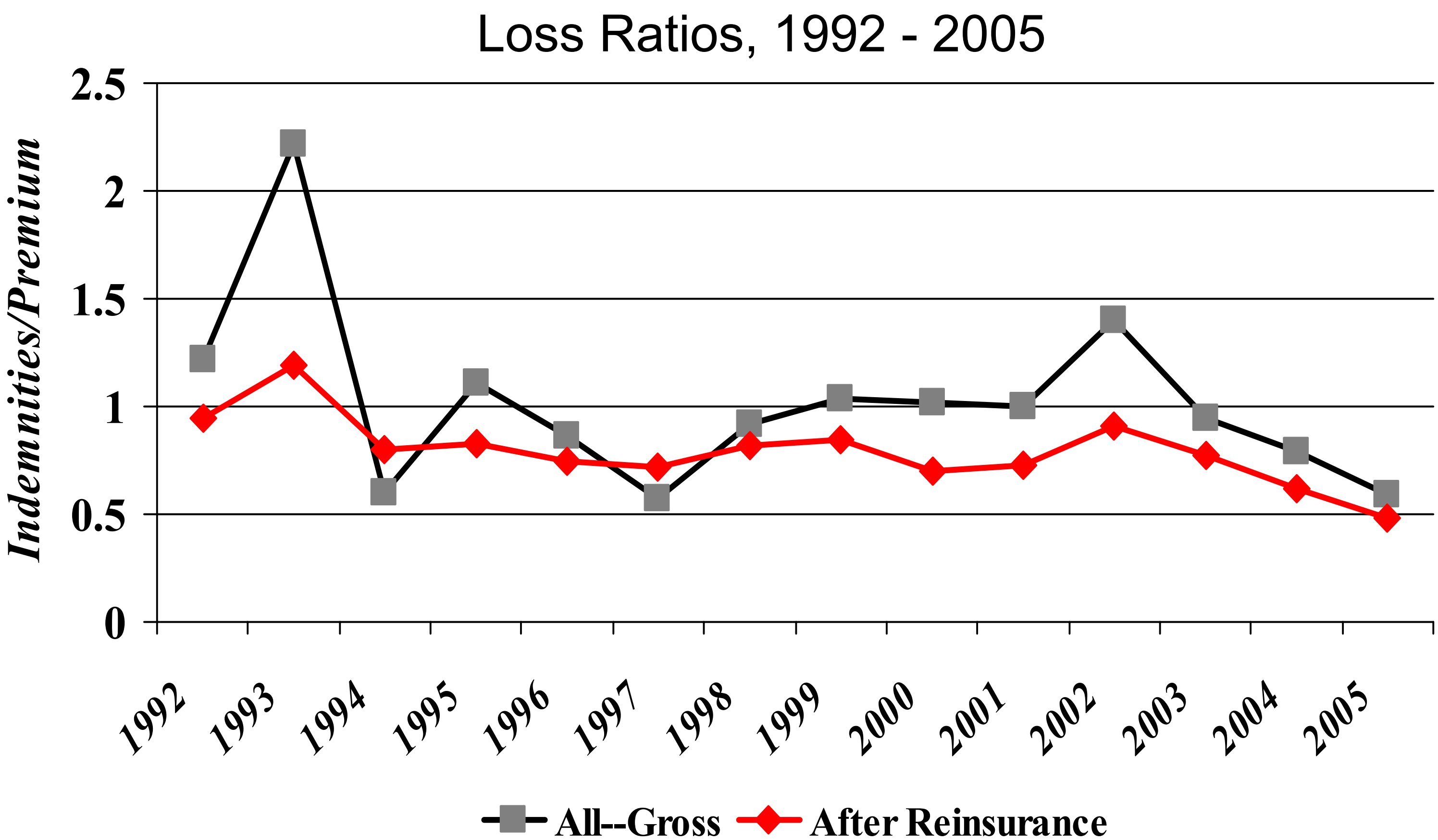
Loss Experience and Risk Retention

Loss Ratio and Use of Assigned Risk, Selected Crops



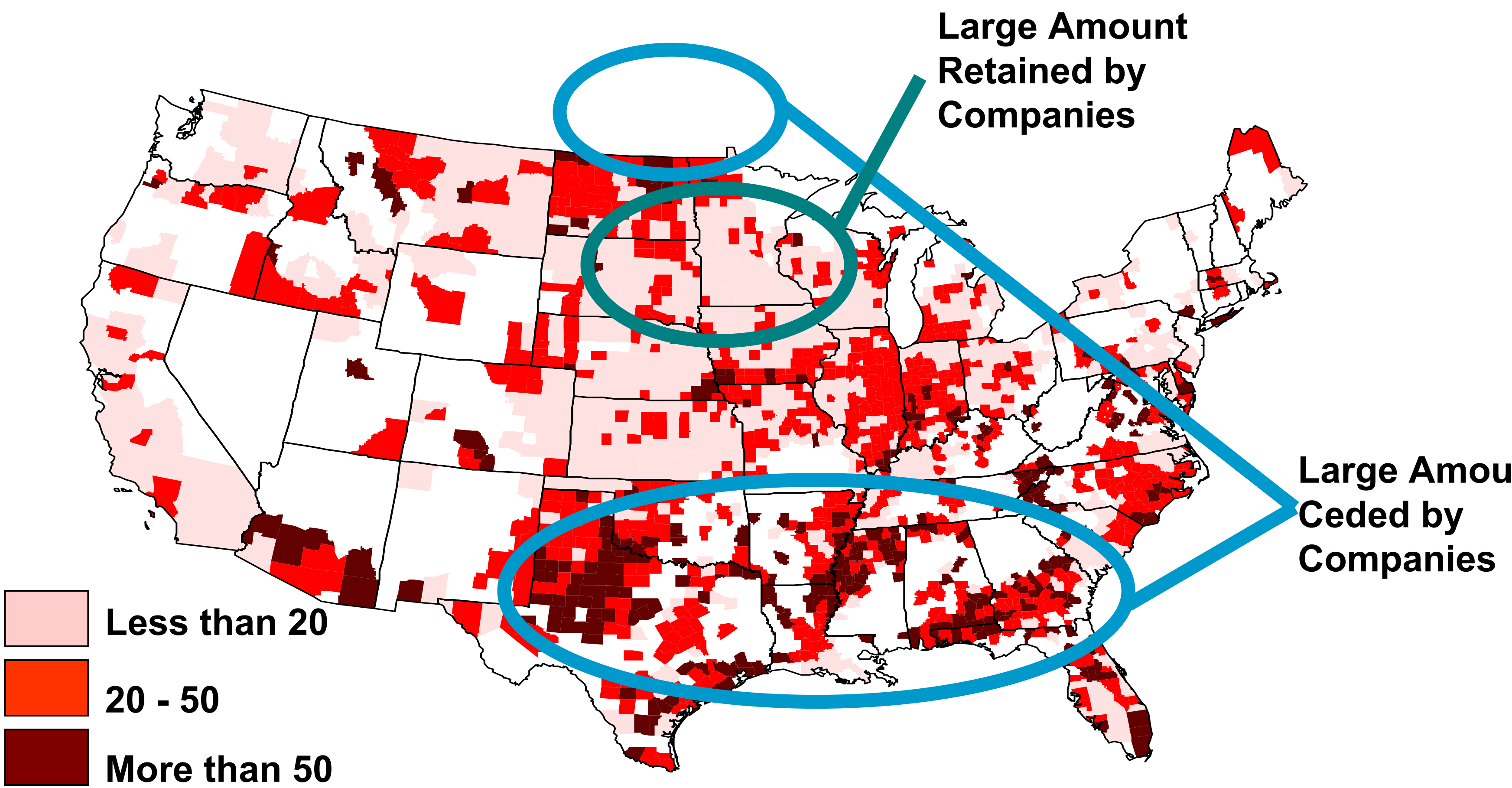
Percent of total premium in Assigned Risk fund, 2005.

Reinsurance Reduces Variability of Loss Ratio



Companies’ Retention Varies by Region

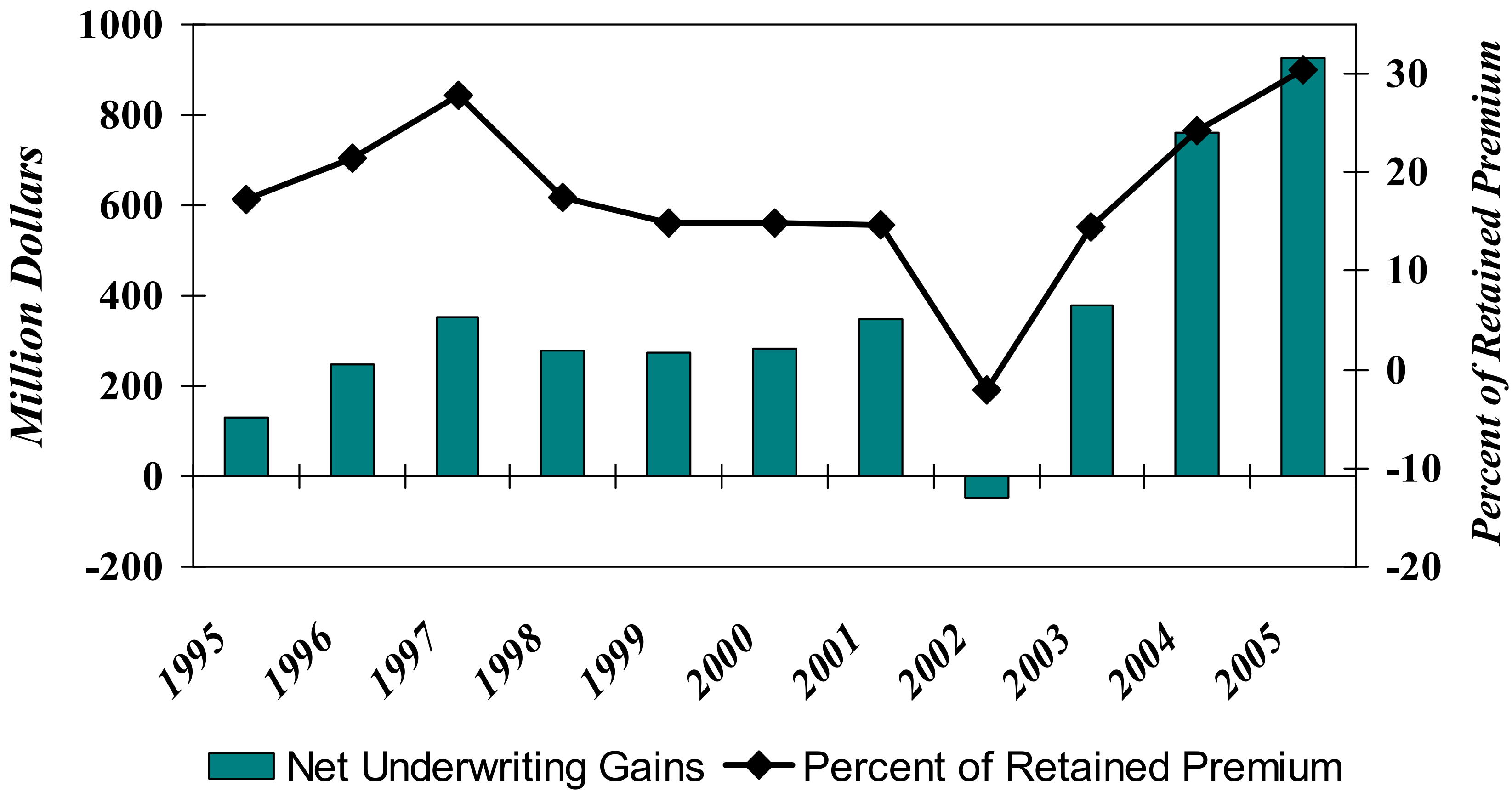
Percent of Total Premium in Assigned Risk Fund



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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