Background Commodity Insurance Information

Risk Management Agency
Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry
June 2003

Commodity Insurance Overview

Buying a commodity insurance policy is one risk management option. Producers should always carefully consider how a policy will work in conjunction with their other risk management strategies to insure the best possible outcome each crop year. Commodity insurance agents and other agri-business specialists in the private and public sectors can assist farmers in developing a good management plan.

RMA provides policies for more than 100 commodities. (This number would be much higher if every crop variety/commodity insured in every county were counted.) RMA is also currently conducting studies to determine the feasibility of insuring many other commodities and is conducting pilot programs for some new commodity policies in selected states and counties. Federal commodity insurance policies typically consist of the Common Crop Insurance Policy, the specific commodity provisions, and the policy endorsements and special provisions.

See RMA's Summary of Business Reports (http://www.rma.usda.gov/data/#sumbus) for information about commodity policies available in specific counties and states.

Types of Policies

Producers may select from various types of policies. Standard Multiple Peril Crop Insurance (MPCI) policies are available for most insured crops. Other plans may not be available for some insured commodities in some areas. In addition, some of the policies listed below are not available nationwide; they are being tested in pilot programs and are only available in selected states and counties.

Yield-based (APH) Insurance Coverage

Multiple Peril Crop Insurance (MPCI)—These policies insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The farmer selects the amount of average yield he or she wishes to insure; from 50 to 75 percent (in some areas to 85 percent). The farmer also selects the percent of the predicted price he or she wants to insure; between 55 and 100 percent of the crop price established annually by RMA. If the harvest is less than the yield insured, the farmer is paid an indemnity based on the difference. Indemnities are calculated by multiplying this difference by the insured percentage of the established price selected when crop insurance was purchased.

Group Risk Plan (GRP)—These policies use a county index as the basis for determining a loss. When the county yield for the insured crop, as determined by the National Agricultural Statistics Service (NASS), falls below the trigger level chosen by the farmer, an indemnity is paid. Payments are not based on the individual farmer's loss records. Yield levels are available for up to 90 percent of the expected county yield. GRP protection involves less paperwork and costs less than the farm-level coverage described above. However, individual crop losses may not be covered if the county yield does not suffer a similar level of loss. This type of insurance is most often selected by farmers whose crop losses typically follow the county pattern.

Dollar Plan—The dollar plan provides protection against declining value due to damage that causes a yield shortfall. The amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual value of the crop is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percent of the maximum dollar amount equal to CAT (catastrophic level of coverage), limited, or additional coverage levels.

The dollar plan is available for several crops, including fresh market tomatoes, strawberries, and cherries (on a pilot program basis in limited areas only).

Revenue Insurance Plans

Note: *All revenue-based options determine revenue differently. See each policy's provisions for their definition of revenue.*

Group Revenue Insurance Policy (GRIP)—makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer.

Adjusted Gross Revenue (AGR)—insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms to calculate the policy revenue guarantee.

Crop Revenue Coverage (CRC)—provides revenue protection based on price and yield expectations by paying for losses below the guarantee at the higher of an early-season price or the harvest price.

Income Protection (IP)—protects producers against reductions in gross income when either a crop's price or yield declines from early-season expectations. To determine coverage, see the policy provisions.

Revenue Assurance (RA)—provides dollar-denominated coverage by the producer selecting a dollar amount of target revenue from a range defined by 65-75 percent of expected revenue. To determine coverage, see the policy provisions.

Policy Endorsements

Catastrophic Coverage (CAT)—pays 55 percent of the established price of the commodity on crop losses in excess of 50 percent. The premium on CAT coverage is paid by the Federal Government; however, producers must pay a $100 administrative fee for each crop insured in each county. Limited-resource farmers may have this fee waived. CAT coverage is not available on all types of policies.

Producer Obligations

Producers must:

- Report acreage accurately,
- Meet policy deadlines,
- Pay premiums when due, and
- Report losses immediately.

Producer Expectations

Producers will receive:

- Accurate answers to questions on types of coverage,
- Prompt processing of their policy, and
- Timely payments for covered losses.

Important Deadlines

Sales closing date—last day to apply for coverage.

Final planting date—last day to plant unless insured for late planting.

Acreage reporting date—last day to report the acreage planted. If not reported, insurance will not be in effect.

Date to file notice of crop damage—after damage; the date the producer decides to discontinue caring for the crop; prior to the beginning of harvest; immediately, if farmer determines that the crop is damaged after harvest begins; or the end of the insurance period, whichever is earlier.

End of insurance period—latest date of insurance coverage.

Payment due date—last day to pay the premium without being charged interest.

Cancellation date—last day to request cancellation of policy for the next year.

Production reporting date—last day to report production for Actual Production History (APH).

Debt termination date—date insurance company will terminate policy for nonpayment.

New Policies and Policy Expansion

Although in recent years, RMA has streamlined the process of developing new policies, much has to be done before a policy can be made available nationwide, especially if it is a new type of policy or a policy on a commodity which is not similar to any crop already insured. Generally, the process takes several years.

In areas where an established commodity policy is not available, farmers may request that their RMA Regional Office expand the program to their county the next crop year. They may also request that for the current crop year they be insured under a written agreement, a kind of individual policy which bases

premium rates on data from other counties. Producers are required to have documented experience in growing the crop, or in growing an agronomically similar crop, to obtain the agreement.

Note: Any examples are for illustrative purposes only. Contact a crop insurance agent for terms for an individual farm.

❧ For more information on RMA's commodity policies, visit our Policy page online at: www.rma.usda.gov/policies/

Commodities Covered Under the 2003 Insurance Program

Adjusted Gross Revenue
Adjusted Gross Revenue-Lite
Alfalfa Seed
All other citrus trees
All other grapefruit
Almonds
Apples
Avocados (APH, Revenue)
Avocado Trees (Florida)

Barley (APH, IP)
Blackberries/Raspberries
Blueberries
Burley Tobacco

Cabbage
Canola (APH, RA)
Cherries (Dollar)
Chile Peppers
Cigar Binder, Filler, & Wrapper Tobacco
Citrus
- Grapefruit
- Lemons
- Limes
- Mandarins
- Murcotts
- Navel Orange Dollar
- Oranges
- Tangelos
- Tangerines

Citrus Trees
Clams
Corn (APH, CRC, GRIP, GRP, IP, RA)
Cotton (APH, CRC, GRP, IP)
Crambe
Cranberries
Cultivated Wild Rice
Dark Air Tobacco
Dry Beans
Dry Peas

Early & Midseason Oranges

Figs
Fire-Cured Tobacco
Flax
Flue-Cured Tobacco
Florida Fruit Trees
- Carambola
- Grapefruit
- Lemon
- Lime
- Orange
- All other citrus trees

Forage Production (APH, GRP)
Forage Seed (Alfalfa)
Forage Seeding
Fresh Apricots
Fresh Freestone Peaches
Fresh Market Beans
Fresh Market Sweet Corn
Fresh Market Tomatoes
Fresh Nectarines

Grain Sorghum (APH, CRC, GRP, IP)
Grapefruit
Grapefruit Trees
Grapes
Green Peas
Hybrid Corn Seed
Hybrid Sorghum Seed
Late Oranges
Lemon Trees
Lime Trees
Livestock (Swine)

Macadamia Nuts
Macadamia Trees
Mandarins
Mango Trees
Maryland Tobacco
Millet
Minneola Tangelos
Mint
Mustard

Naval Oranges (Citrus)
Nursery (FG&C)

Oats
Onions
Orlando Tangelos

Peaches
Peanuts (APH, GRP)
Pears
Pecans
Peppers
Plums
Popcorn
Potatoes
Processing Apricots
Processing Beans
Processing Cling Peaches
Processing Cucumbers
Processing Freestone
Prunes
Raisins
Rangeland (GRP)
Raspberry/Blackberry
Rice (APH, CRC)
Rio Red & Star Ruby
Ruby Red Grapefruit
Rye

Safflower
Soybeans (APH, CRC, GRIP, GRP, Indexed IP, IP, RA)
Stonefruit
- California Apricots
- California Nectarines
- California Peaches

Strawberries
Sugar Beets
Sugarcane
Sunflowers
Sweet Corn
Sweet Oranges
Sweetpotatoes
Swine

Table Grapes
Tobacco
Tomatoes (Canning and Processing)

Valencia Oranges

Walnuts
Wheat (APH, CRC, GRP, IP, RA)
Winter Squash

Bold face=new for 2003; APH=Actual Production History; CRC=Crop Revenue Coverage; GRIP=Group Risk Income Protection; GRP=Group Risk Plan; IP=Income Protection; LGM=Livestock Gross Margin; LRP=Livestock Risk Protection; and RA=Revenue Assurance.

Source: USDA/RMA web site, www.rma.usda.gov/policies/03croplist.html, May 19, 2003.

Feasibility Studies

Crop	Date of Study	Available Documents Online
Aquaculture	December, 1998	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Aquacult.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/aquacult.pdf
Artichoke	November 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/artichok.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/artichok.pdf
Asparagus	August 3, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/asparags.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/asparags.pdf
Avocado	February 23, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/avocado.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/avocado.pdf
Blueberry	February 18, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bluebery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bluebery.pdf
Bramble	October 21, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bramble.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bramble.pdf
Broccoli	August 25, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/broccoli.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/broccoli.pdf
Buckwheat	November 13, 1996	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/buckwht.pdf
Cabbage	September 26, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cabbage.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cabbage.pdf
Cantaloupe	December 15, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cantloup.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cantloup.pdf
Carrot	June 27, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/carrot.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/carrot.pdf
Cauliflower	September 12, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/caulflwr.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/caulflwr.pdf
Celery	June 9, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/celery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/celery.pdf
Christmas Tree	December 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/xmastree.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/xmastree.pdf
Crambe	November, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/crambe.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/crambe.pdf
Cucumber	October 3, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cucumber.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cucumber.pdf
Eggplant	May 7, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/eggplant.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/eggplant.pdf
Field-grown Bulb Crops	April 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bulb.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bulb.pdf
" Floriculture Crops	April 24, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/florcult.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/florcult.pdf
Garlic	May 20, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/garlic.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/garlic.pdf
Hay	October 25, 1995	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/hayrpt.pdf
Honeydew Melon	December 27, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/honeydew.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/honeydew.pdf
Hops	July 26, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/hops.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/hops.pdf
Income Protection	August 19, 1997	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/ip_technical-paper.pdf
Lettuce	June 1, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/lettuce.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/lettuce.pdf

Feasibility Studies, cont'd

Crop	Date of Study	Available Documents Online
Millet	December 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/millet.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/millet.pdf
Mint	June 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Mint.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/mint.pdf
Mushroom	April 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/mushroom.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/mushroom.pdf
Nursery	April 24, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/nursery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/nursery.pdf
Nut Trees	May 25, 1998	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/NutTrees.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/nuttrees.pdf
Olive	December 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/olives.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/olives.pdf
Pineapple	June 8, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/pineappl.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/pineappl.pdf
Pistachio	July 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/pistchio.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/pistchio.pdf
Snapbean	December 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/snapbean.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/snapbean.pdf
Squash/Pumpkin	February 28, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Squash.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/squash.pdf
Strawberry	October 31, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/strawbry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/strawbry.pdf
Sweet Cherry	April 4, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/swcherry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/swcherry.pdf
Sweet Potato	July 20, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/sweetpot.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/sweetpot.pdf
Tart Cherry	August 26, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/tcherry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/tcherry.pdf
Turfgrass Sod	February 23, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/turfsod.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/turfsod.pdf
Watermelon	November 22, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/wtrmelon.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/wtrmelon.pdf
Wild Rice	June 24, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/wildrice.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/wildrice.pdf

Source: USDA/RMA web site, www.rma.usda.gov/pilots/feasible.html, May 19, 2003.

Research and Development Agreements Announced December 2002

Apiculture Insurance Product
AgriLogic, Inc.
States: All
Objective: To generate the necessary data and information to assist AgriLogic and RMA policymakers in analysis and evaluation of an insurance program for apiculture.

Burning Risk Advisory Support System (BRASS): Fine Fuel Prediction System to Assist State Forestry Agencies in Catastrophic Fire Loss Reduction on Private Wildlands
AgriLogic, Inc.
States: AR, LA, OK, TX
Objective: To develop a BRASS for private landowners that would facilitate characterization of fine-fuel loading values to improve Internet based State forestry wildland fire assessment programs.

Developing a Prescribed Fire Liability Product
Iowa Department of Natural Resources Bureau of Forestry
States: All
Objective: To prevent, control, and suppress wildfires through the development of an insurance product that reduces the liability of private contractors and non-governmental organizations when conducting prescribed fires on private forestland.

Developing Weather-Based Risk Management and Insurance Products for NAP and Specialty Crops in the Mid-Atlantic and Southwest States
Rutgers, The State University of New Jersey
States: AZ, DE, MD, NJ, NY
Objective: To develop a research program to evaluate the equity and efficiency of weather insurance for NAP and specialty crops.

Feasibility and Development of Triticale Risk Insurance Product
AgriLogic, Inc.
States: IA, MI, WI
Objective: To generate the necessary data and information to assist AgriLogic and RMA policymakers in analysis and evaluation of the insurance options for triticale.

Insurance Vision: A Risk Management Decision-Support Tool
AgriLogic, Inc.
States: All
Objective: To design and develop a risk management decision-support tool for agricultural producers.

An Integrated Approach to Spatio-Temporal Models and Tools for Agricultural Risk Assessment and Exposure Analysis
Board of Regents, University of Nebraska - Lincoln
States: All
Objective: To develop web-based tools that provide spatial analysis and mapping and to develop a series of risk education workshops for producers and educators.

An Organic Comparative Analysis Tool (OCAT) for Direct Marketing Strategies of Organic Commodities
Georgia Organics, Inc.
States: AL, FL, GA, SC, TN
Objective: To develop and analyze a simulation model capable of examining the joint use of crop insurance, forward pricing, and the three USDA price risk protection programs (LDP, fixed payments, and counter-cyclical payments) in a multiple-crop context.

Reducing Exposure to Drought Risk in Potato Production Systems
University of Idaho
States: ID (may also be applicable to WA and OR)
Objective: To develop a web-based software tool that can be used by potato growers, water managers and risk management personnel to reduce exposure to drought risk in potato cropping systems.

Research of Labor Issues and Development of Labor Cooperatives as Operational Risk Management Tools for Limited-Resource and Small Family Farms in Mississippi and Florida
North-South Institute (NSI)
States: FL, MS
Objective: To establish two agricultural labor cooperatives that will serve as operational risk management tools for limited-resource and small family farms in selected areas.

Risk Management for Fruit Crops Through Prediction of Frost Conditions
University of Georgia Research Foundation, Inc.
States: AL, FL, GA, NC, SC
Objective: To develop an intelligence-based risk management system that will utilize short-term weather data to predict frost and reduce risk for horticultural crop producers, especially fruit crops, in the southeastern U.S.

Risk Reduction for Specialty Crops in the Southeastern U.S.
University of Florida
States: AL, FL, GA
Objective: To produce web-based products that provide climate forecast information to producers and to provide risk management decision aids for use in three specialty crop commodities and forestry.

Research Partnership for Risk Management Development and Implementation: Addressing the Bioterrorism Threat to Agriculture
Science Applications International Corporation (SAIC)
States: All
Objective: To develop a better understanding of potential bioterrorist threats at different points in the food chain and the implications on the farming sector; develop interim solutions or actions; and develop insurance coverage against bioterrorist threats.

Use of Weather Station Data to Create Yield Insurance Products for Underserved Crops

Iowa State University

States: All

Objective: To conduct basic research in economics and finance and to develop risk management tools that target particular weather events for underserved commodities.

❧ For more information on RMA's 2002 partnership agreements, visit these pages on the RMA web site:
News Release: www.usda.gov/news/releases/2002/12/0490.htm
Education: www.rma.usda.gov/news/2002/11/educationtable.html
Outreach: www.rma.usda.gov/news/2002/11/outreachtable.html
R&D: www.rma.usda.gov/news/2002/11/r&dtable.html