A Brief History of Crop Insurance

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Overview

This fact sheet provides the background necessary to understand why the crop insurance industry is structured the way it is today. Crop insurance as a federal program dates to 1938, five years after the passage of the 1933 farm bill under Franklin D. Roosevelt. Covered crops and the types of insurance have changed drastically over time to provide the risk management tools we now have available. The overarching story centers around the actuarial performance of U.S. crop insurance and its success hinging on the participation of producers.

An Experiment Becomes Policy: 1899-1938

Kramer (1983) provides a detailed history of crop insurance from the first year it was considered as an experiment in 1899 through the introduction of the first premium subsidy in 1980. Even though crop insurance became federally administered in 1938 through the Federal Crop Insurance Act (FCIA), crop insurance has been recorded to have existed in the United States since 1899 when a private company in Minneapolis introduced the first "all-risk" crop insurance as an experiment. In 1917, more private "all-risk" crop insurance policies were written in North Dakota, South Dakota, and Montana.

It wasn't until 1922 USDA published data on causes of crop damages which is also when Senator Charles McNary (R-OR) and the then Secretary of Agriculture Henry Wallace cite crop insurance as a national problem. While federally administered crop insurance was not included in the first farm bill, the Agricultural Adjustment Act of 1933 (AAA), it did become a presidential campaign issue in 1936 as Franklin D. Roosevelt supported federal crop insurance and his opponent, Alfred Landon, supported private crop insurance. In 1937, Roosevelt tasked a Committee on Crop Insurance to release a report on crop insurance for wheat production. Shortly after, Senate and House bills for the FCIA were passed. In 1938, Roosevelt signed the FCIA into law, introducing the first federally administered crop insurance program for wheat in the United States.

Expansion of Crop Eligibility and the First Premium Subsidy: 1940-1980

The period from 1940-1980 marked a rather large expansion of eligible crops. The primary reason wheat was the only eligible crop was because there was crop yield data available from government support programs enacted under the AAA of 1933. This yield data provided the basis for assessing actuarial performance and rating actuarial sound crop insurance. In other words, premium rates were to be established which would cover administrative expenses and indemnities paid to producers. However, as new crops were introduced, the program was not actuarially sound in practice as indemnities exceed premiums with insurance underwriting losses recorded at $11 million in 1943.

The introduction of more eligible crops began with cotton in 1941. This decision was likely heavily influenced by the president of American Farm Bureau Federation, Edward O' Neal from Alabama. Corn and tobacco became eligible for crop insurance on a trial basis in 1945, and soybeans became eligible in 1955. By 1956, 24 different crops across 948 counties were made eligible for U.S. crop insurance. Rice and peanuts became eligible in 1960 and 1962, respectively. Notably, all crop insurance to this point was strictly yield insurance insured at the county level, not farm level, and low participation rate across the U.S. plagued the actuarial performance of the program.

Mandatory Participation and Changes to the Subsidy Rate: 1994-2008

As participation rates remained low hindering the effective premium rating of crop insurance, policymakers introduced a landmark piece of legislation, the Federal Crop Insurance Reform Act of 1994 (FCIRA) (Coble and Barnett, 2008; Glauber, 2013). The FCIRA not only authorized a major increase in premium subsidy rates but also instituted mandatory participation in crop insurance for those utilizing other programs authorized under the Farm Service Agency (FSA) such as price support, production adjustment, farm loan, or other

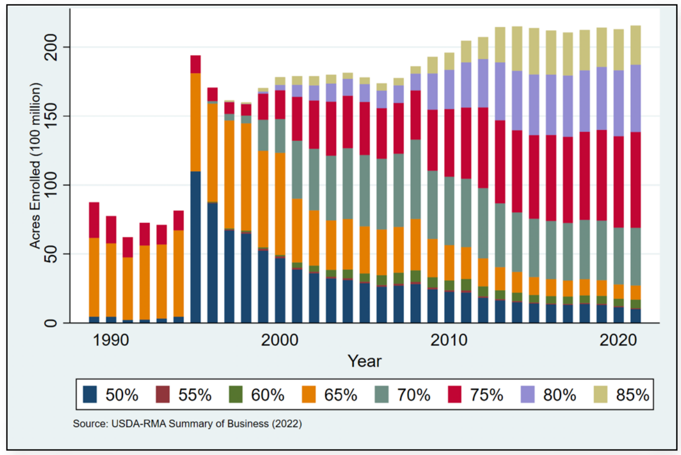

Figure 1. U.S. Crop Insurance Participation Represented by the Amount of Acres Enrolled Across All Crops and Plans (1989-2022)

similar programs. Since not all producers wanted to participate in higher levels of crop insurance due to relatively costly premiums, the FCIRA also introduced Catastrophic (CAT) Coverage which originally insured 50% of insurable yield at 60% of the expected harvest-time market price. Today, CAT coverage is an endorsement which provides an indemnity when harvest-time yield falls below 50% of expected yield and is paid at 55% of expected price. Figure 1 shows how the pattern of crop insurance participation has changed since 1989 with the most notable increase being in 1995 reflecting the legislative changes implemented by the FCIRA of 1994.

After receiving ad hoc premium subsidies in 1999, there was another statutory change in the premium subsidy rates in 2000 through the Agricultural Risk Protection Act (Coble and Barnett, 2008). The primary motivation for these premium subsidy rate increases was not just increasing participation to increase actuarial experience but also to reduce ex post disaster assistance which largely dominated federal crop insurance before the FCIRA of 1994 (Coble and Barnett, 2008).

The last change to the subsidy rates for what is considered the traditional suite of crop insurance programs (i.e., yield and revenue[1] insurances) was in the Food, Conservation, and

Footnotes

[1]Between these premium subsidy rate changes, revenue insurance was first introduced for corn and soybean producers in Iowa and Nebraska in 1996 (Glauber, 2013).

Unit, which faces a relatively high premium subsidy rate compared to the Optional and Basic Units. Unit Structures will be discussed in a subsequent fact sheet.

Shallow Loss and Margin Programs: 2012-2022

Prior to the FCIA of 1980, all eligible crops could be insured under an area policy which provided coverage for county-average yields. All policies after this were largely individual policies insuring farm-level yields based on actual production history (APH). Despite area-based policies created in the 1990 farm bill, individual policies still dominate insured acreage. However, in spite of the lack of popularity in area plans, USDA-RMA introduced endorsements or products which offer supplemental protection based on county-level measures. These endorsements were designed to add-on to underlying individual protection, although a few function as a stand-alone insurance policy. These endorsements are intended to provide protection against “shallow losses”, or those losses not triggered by traditional crop insurance plans (i.e., losses less than 15% of insurable revenue).

The first of these endorsements, introduced in 2015, is the Supplemental Coverage Option (SCO) which provides additional coverage for a portion of the producer’s individual insurance deductible. The Enhanced Coverage Option (ECO), introduced in 2018, provides an even higher amount of coverage for the producer’s underlying deductible and may be purchased with SCO. Another endorsement a producer can pair with SCO is Hurricane Insurance Protection - Wind Index (HIP-WI) which only provides protection for counties triggered by hurricane or tropical storm events was made available for the 2020 crop year. Stacked Income Protection (STAX), introduced in 2015, and Margin Protection (MP), introduced in 2018, provide area protection but can to be added on to a traditional plan of crop insurance. STAX provides county-level revenue protection for upland cotton, while MP provides county-level protection for the difference in expected revenue and expected costs. Further details on these products will be given in a subsequent fact sheet.

References

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