This paper presents a general overview and is not intended as legal advice. For legal advice, consult a lawyer of your own choosing about your situation.

Federal Crop Insurance Primer

I. <u>What is Crop Insurance and Why Do I Need it?</u>

Crop Insurance is an important part of a general plan for managing any farm that is geared specifically towards protecting farmers from a variety of potential problems that could cause significant loss of money, land or livelihood. For instance weather and disaster related incidents could cause a great amount of damage to the crops themselves, leading to a near complete loss of income before replanting can occur. However, crop insurance can also protect against other dangers faced by growers such as an unexpected change in the market sale price of your chosen crop that leaves you unable to sell your crop for a profit. Crop Insurance helps farmers in these and a variety of other situations by reimbursing them for a portion of the money lost and therefore minimizing the overall loss so that a farmer does not lose his business because of something unforeseeable like a natural disaster. While Crop Insurance requires the payment of a premium and there is the possibility that it will never be needed, it is (like most other forms of insurance) still important to have in case something were to happen.

Crop Insurance comes in many different forms, and it is important to select the type of insurance that is right both for the crops and/or livestock that the individual farmer cultivates. A producer who grows an insurable crop selects a level of coverage (the amount of money that you want to have paid out if disaster strikes) and then pays a portion of the premium that increases as the coverage level rises [1]. Because Crop Insurance is subsidized by the federal government, the government pays the rest of the premium. The insurance companies that sell the crop insurance

[1] Risk Management Agency website: <www.rma.usda.gov/help/faq/basics>

policies are also reimbursed by the government for losses and other operating costs and administrative expenses associated with providing the coverage [2].

Federal Crop Insurance is publicly supported in that the premiums and the costs associated with servicing the claims are subsidized by funds from the federal government. The Federal Crop Insurance Corporation (FCIC) also controls the amount of the premiums that insurance companies are allowed to charge, as well as the contract terms that the companies are allowed to put in a Crop Insurance policy. For years, the FCIC not only regulated and funded Crop Insurance programs: it also sold crop insurance directly to producers. Today, the FCIC no longer sells Crop Insurance directly but instead sells it through private insurance companies. These companies are approved by the FCIC and must follow the guidelines set forth by the FCIC and USDA through the Risk Management Agency. So while Crop Insurance is publicly supported, it is sold privately by many of the largest insurance providers in the country[3].

As with most types of insurance, there are a wide variety of policies with varying levels of coverage to meet the needs of a wide array of farmers. It is important to determine not only which type of insurance fits the needs of your particular situation, but also what amount of coverage is affordable for you. Two of the major factors involved in this decision include determining which coverage addresses the unique risks of your particular farm or crops, and also the risks inherent to the current market or economic situation in your area. No matter what type of coverage you choose, Crop Insurance is important in order to ensure that you are protected from unforeseeable risks that could cause a loss of crops, revenue, land or even your livelihood.

[2] Risk Management Agency website: <www.rma.usda.gov/aboutrma/what/history.html>
[3] Id.

II. Types of Coverage

Levels of Protection

As previously stated, there are a wide variety of coverage options to choose from. The first and most basic of these is Catastrophic Risk Protection (CAT) coverage[4]. CAT coverage protects producers from crop loss due to loss of yield or prevented planting because of drought, flood or other natural disaster. Most policies of this kind cover a 50 percent loss in yield for a given crop at 55 percent of the expected market price of the crop. For example, this means that in general the policy will pay 55 percent of the market price of half of your projected yield in the event of a qualifying disaster[5]. However, how your projected yield is calculated will vary depending on the language of the specific policy. CAT coverage requires a minimum of a 50 percent loss in yield before the coverage will kick in and the insurance company will pay[6]. Ideally, CAT coverage is primarily for major crop loss events since it requires such a high minimum loss in yield before it kicks in. Furthermore, CAT coverage requires the payment of both a premium and an administrative fee.

Anything greater than CAT coverage falls under the umbrella of "additional coverage". There are a number of policies under additional coverage but generally coverage is 65 percent of the approved yield amount at 100 percent of the current market price. Additional coverage is available in increments of 5 percent (70 percent of yield, then 75 percent, etc.) up to 85 percent of an individual crop yield or 95 percent of an area yield[7]. While additional coverage certainly

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[4] 7 C.F.R. 402.1

[5] Risk Management Agency, 2012 F.C.I.C. 18010 Crop Insurance Handbook. <www.rma.usda.gov/handbooks/18000/2012_18010-1.pdf>

[6] Id.

[7] Risk Management Agency website: <www.rma.usda.gov/policies> ; Risk Management Agency, 2012 FCIC 18010 Crop Insurance Handbook. <www.rma.usda.gov/handbooks/18000/2012_18010-1.pdf>

gives more protection than basic CAT coverage, it is more expensive and should only be sought out for farmers in high risk areas or those cultivating high risk crops. Another available type is "Limited Coverage" which is equal to or greater than 50 percent of the approved yield at 100 percent of the market price[8]. Again, this additional type of coverage provides greater protection but also comes at a greater cost. The level of coverage necessary is entirely dependent upon the needs of your individual farm, the risks you are willing to take financially, and how much you can spend on premiums and administrative fees. It is important to consult with your Crop Insurance provider to determine which type of coverage will fit the needs of your farm.

Types of Policies

There are two basic models for compensation in Crop Insurance policies: Yield Loss and Revenue Loss. They provide different protections for either the crops themselves or the business in which the individual producer is engaged. Yield loss policies provide coverage based on a quantity or value of yield for yield loss. This means that it covers actual crop damage from weather and other "unavoidable perils". Yield loss coverage basically compensates the producer by giving him a percentage of the value of the actual crops that were lost, thus minimizing the loss to the farmer. The most common type of yield-based coverage is called Multiple Peril Crop Insurance (MCPI)[9]. It is important to consult with your Crop Insurance provider prior to purchasing a policy in order to determine specifically what types of disasters and events are covered under the policy. One of the most avoidable mistakes in purchasing Crop Insurance is neglecting to find out exactly what type of loss is covered under the policy. If the reason for the destruction of your crops does not fall exactly within what is outlined in the policy, the insurance company can refuse to pay out.

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[8] Risk Management Agency website: <www.rma.usda.gov/policies> ; Risk Management Agency, 2012 FCIC 18010 Crop Insurance Handbook. <www.rma.usda.gov/handbooks/18000/2012_18010-1.pdf>

[9] Risk Management Agency website: <rma.usda.gov/policies>

While Yield Loss policies cover the actual damage to crops themselves, Revenue Loss policies are geared towards covering revenue losses due to economic and market factors rather than natural disaster and crop damage. Revenue loss protects the money that you make, rather than the crops that you grow. This makes Revenue Loss more of a business protection than an actual crop protection. The basic model of a revenue loss policy compensates you based upon the revenue that you would have expected to receive from your crop yield[10]. Below is a table[11] outlining some of the more common types of Revenue Loss policies. Again, it is important to realize that amount of coverage, type of coverage, payout, cost and a number of other important factors will vary from policy to policy and company to company. It is vital to consult with your insurance provider to get the specific details of your individual policy.

Policy	**Description**
Group Risk Income Protection (GRIP)[12]	Pays producers when the average revenue in your county for the insured type of crop falls below the revenue level chosen by the producer
Adjusted Gross Revenue (AGR)	Insures revenue of a producer's entire farm by guaranteeing a percentage of the farm's overall revenue
Crop Revenue Coverage (CRC)	Provides protection based on price and yield expectations by covering losses below the guaranteed amount at the higher of an early season price or the harvest price
Income Protection (IP)	Provides financial protection against

10 Risk Management Agency website: <www.rma.usda.gov/policies>
11 Table Source: Risk Management Agency website <www.rma.usda.gov/policies>
12 See also: 7 C.F.R. 407

	reductions in gross income when a crop's price or yield declines from early season projections
Revenue Assurance (RA)	The producer selects a dollar amount of target revenue between 65 and 75% of the expected revenue. This amount is then guaranteed by the insurance company

III. Crop Insurance vs. Disaster Insurance

Contrary to popular belief and despite a number of similarities, Crop Insurance and Disaster Insurance are two separate services. The Farm Service Agency provides disaster insurance policies in addition to the normal crop insurance policies offered. Disaster Insurance provides additional coverage in the event of a more catastrophic loss to the farm than what is anticipated by a normal Crop Insurance policy. Disaster insurance also provides coverage for some types of crops and livestock for which other crop insurance policies may not be available. There are two basic types of Disaster Insurance programs: Crop Loss and Livestock Loss. Crop Loss covers production losses (both quantity and quality) for most agricultural crops.

Crop Loss Policies[13]	
Noninsured Crop Disaster Assistance Program (NAP)	Covers production losses for crops where federal crop insurance is not available
Supplemental Revenue Assistance Payments Program (SURE)	Covers crop losses in counties declared a disaster by the secretary of agriculture
Tree Assistance Program (TAP)	Covers losses to various different types of trees

[13] Risk Management Agency website: <www.rma.usda.gov/polices>

Livestock Loss policies provide coverage for the death and feed losses of livestock, farm raised fish, honeybee colonies and honeybee hives. In addition to Crop Loss and Livestock Loss there are also Damaged Farm Property Disaster Relief Policies. This type of policy covers a wide range of physical losses to crops, livestock, real estate, real estate improvements, machinery and equipment. Farmland damage and loss due to things such as debris removal, repairing of fence and conservation structures, and providing water to livestock are also covered under some policies[14]. Again, it is extremely important to consult with your Crop or Disaster Insurance provider prior to purchasing a policy. While all policies are alike in some general way, each one will be different in order to address the concerns specific to your crop and the inherent risks associated with growing that crop and the risks unique to the area in which you live.

IV. Common Issues with Crop Insurance: A Troubleshooting Guide

The single biggest issues that most producers run into when choosing a policy or filing a claim is the question of what losses are NOT covered under their Crop Insurance plan. Although the insurance company is obligated to pay for the damages that are specified in the policy, the policyholder (the farmer) is also required to follow certain procedures in order for the policy to remain valid[15]. If a producer does not follow the set procedures, the insurance company can refuse to pay out for a claim. For example, crop loss due to neglect or poor farming are generally not covered. The biggest thing for which insurance companies can refuse to pay is failure to follow "good farming practices". Crop insurance will refuse to pay out where it is determined that the producer failed to follow "good farming practices"[16], which are judged by the standard

[14] Risk Management Agency website: <www.rma.usda.gov/polices>
[15] <www.cropinsurancespecialists.com/resources/responsibilities>
[16] 7 U.S.C. § 1508(a)(3)(A)

for a given crop in the area where the producer is located. It is a very subjective standard in that there is no actual definition of what "good farming practices" are, but it is intended to prevent paying out claims where crop or revenue loss was due merely to bad farming practice rather than natural disaster or economic hardship. In general, good farming practices are considered to be "production methods utilized to produce the insured crop and allow it to make normal progress towards maturity and produce at least the yield used to determine the production guarantee"[17] or amount of insurance. Basically it is the generally recognized practices for agricultural experts and other farmers in your area that grow the same crops.

Other duties for the farmer include things such as accurate reporting of production, acreage, filling out the correct paperwork, reporting losses in a timely manner, keeping accurate records, and reporting claims to the insurance company[18]. It is also very important to pay all premiums and other fees on time. Any outstanding debt to the FCIC can result in being declared ineligible for Federal Crop Insurance in the future and the loss of any existing policy[19]. Although it should go without saying, growing any sort of illegal or controlled substance[20] on your property can also lead to cancellation of an existing policy and ineligibility to receive crop insurance in the future[21]The exact procedures that need to be followed will be outlined in the Crop Insurance Policy itself, but it is very important to talk to your insurance provider to make sure that you are fully informed of all things that you must do in order to keep up your end of the bargain. Insurance companies will thoroughly check to make sure that all procedures have been followed correctly, and will not hesitate to deny a claim for even the smallest mistake.

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[17] Risk Management Agency, 2012 FCIC 18010 Crop Insurance Handbook, Section 3: "Definitions"
[18] <www.cropinsurancespecialists.com/resources/responsibilities>
[19] 7 C.F.R. 400.679
[20] Controlled substances for the purposes of this subject are defined as "drug producing plants…prohibited by Federal or State law" in 7 C.F.R. 400.46(a)
[21] 7 C.F.R. 400.47

To summarize: Crop Insurance is very important for a producer to have. It helps to minimize losses in the event of natural disaster or other uncontrollable events that can damage your crops and property. Without Crop Insurance, a hurricane, tornado, flood, thunderstorm or any of a number of other events could lead you to lose money, property and even your livelihood. Once again, it is vitally important to speak to your insurance provider and fully understand all of the details of your policy and your obligations under that policy prior to purchasing. The number one issue with Crop Insurance policies is not knowing what is covered, how much of it is covered, and what you have to do in order to receive money in the event that you file a claim. All of these common mistakes can be avoided simply by taking the time to speak with an insurance provider and understand the details of your policy.

Approved Crop Insurance Providers in North Carolina (2012-2013)[22]		
Provider	**Website**	**Telephone**
ADM Crop Risk Services	www.admers.com	800-500-2836
Agrilogic	www.agrilogic.com	888-245-6442
AFBIS, Inc.	www.afbisinc.com	888-483-3914
ARMtech Insurance Services	www.armt.com	800-335-0120
CGB Diversified Services	www.diversifiedservices.com	866-669-3429
Great American Insurance Co.	www.greatamericancrop.com	877-4AG-LINK
Heartland Crop Insurance, Inc.	www.heartlandcropinsurance.com	888-789-5566
Hudson Insurance Group	www.hudsoncrop.com	866-450-1445
John Deere Insurance Co.	www.johndeereinsurance.com	866-404-9057
NAU Country Insurance Co.	www.naucountry.com	888-628-6724
ProAg	www.proag.com	800-366-2787
Rain and Hail, LLC	www.rainhail.com	800-776-4045
Rural Community Insurance	www.rcis.com	800-4513836

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