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RightRisk™

RightRisk News

Summary of Recent U.S. Crop Insurance Sales and Experience

Crop insurance has become an established element of managing risk for many agricultural producers. The United States Department of Agriculture's (USDA) Risk Management Agency (RMA), created in 1996, serves America's agricultural producers by managing market-based federal crop insurance products made available to America's farmers and ranchers through Approved Insurance Providers (AIP).

The number of federal crop insurance policies sold remained above 2.1 million nationwide over the five-year period from 2018-2022, with the use of crop insurance growing in 2021 and 2022 (Table 1). The percentage of policies indemnified compared to policies earning premium is 33 percent for the five-year interval, with the particularly bad crop years of 2019 and 2022 each reporting 39 percent of policies indemnified.

Overall, the loss ratio (Indemnities/ Premiums) was 0.89 for the period 2018-2022 (89 cents paid out for every premium dollar received). This indicates that premiums generally fall in line with targets established to maintain actuarial fairness.

Table 1: United States Crop and Livestock Insurance Policies Summary of Business 2018-2022

Crop Year	Number of Policies Sold	Policies Earning Premium	Policies Indemnified	Total Premiums	Total Indemnities	Loss Ratio
2018	2,168,761	1,109,600	322,279	$9.9 billion	$7.3 billion	0.74
2019	2,169,451	1,109,824	433,849	$10.2 billion	$10.7 billion	1.04
2020	2,198,297	1,116,070	350,205	$10.4 billion	$9.2 billion	0.89
2021	2,265,431	1,174,258	307,810	$14.3 billion	$9.8 billion	0.68
2022	2,309,347	1,203,521	469,412	$19.2 billion	$19.8 billion	1.03

Livestock policies

Use of livestock insurance policies has grown significantly in the last five years (Table 2). These policies include Livestock Gross Margin (LGM) insurance available for cattle, swine, and dairy production; Livestock Risk Protection (LRP) available for cattle and swine, and Dairy Revenue Protection (DRP). The DRP program started in 2019, helping to explain the jump in use of livestock insurance programs from 2018 to 2019.

RMA adjustments to the LRP insurance program to increase accessibility and participation in the program contributed to the recent growth in use of these livestock policies. These changes included a significant increase in the premium subsidies attached to the program. However, in the bigger picture, livestock insurance programs make up only a small portion of the overall crop insurance program.

Table 2: United States Summary of Business for Livestock Insurance Plans 2018-2022, including Livestock Gross Margin (LGM), Livestock Risk Protection (LRP), and Dairy Revenue Protection (DRP).

Insurance Plan	Number of Policies Sold	Policies Earning Premium	Policies Indemnified	Total Premiums	Total Indemnities	Loss Ratio
2018	6,732	1,405	800	$12.9 million	$14.9 million	1.16
2019	10,282	3,385	1,134	$101.3 million	$78.8 million	0.78
2020	12,529	3,883	2,262	$306.3 million	$488.6 million	1.59
2021	28,183	7,082	4,604	$572.4 million	$149.8 million	0.26
2022	26,880	10,072	6,755	$846.1 million	$563.7 million	0.67

Table 3: United States Summary of Business for Rainfall Index (RI) Insurance Plans 2018-2022, including Pasture, Rangeland, Forage (PRF) and Annual Forage (AF) insurance programs.						
Insurance Plan	Number of Policies Sold	Policies Earning Premium	Policies Indemnified	Total Premiums	Total Indemnities	Loss Ratio
2018	39,327	32,142	25,824	$593.0 million	$595.1 million	1.00
2019	46,450	36,818	28,515	$672.9 million	$419.6 million	0.62
2020	48,480	38,433	35,456	$780.2 million	$1.0 billion	1.31
2021	58,526	48,291	45,678	$1.1 billion	$1.3 billion	1.18
2022	69,985	58,831	57,027	$1.4 billion	$2.2 billion	1.51

Experience for producers using livestock insurance programs from 2018-2022 have varied from year to year with 2018 and 2020 paying to cover losses that exceeded total premiums collected and the other years with premiums significantly above the indemnities paid. Overall, 60 percent of policies earning premium from 2018-2022 realized an indemnity and the loss ratio for Federal livestock insurance programs was 0.70.

Other livestock-related policies

Other crop insurance programs targeted at livestock producers are the Rainfall Index (RI) products Pasture, Rangeland, Forage (PRF) and Annual Forage (AF) insurance programs. Both programs use precipitation data from the National Oceanic and Atmospheric Administration Climate Prediction Center (NOAA-CPC) for grids 0.25 degrees longitude by 0.25 degrees latitude. Producers can insure up to 90 percent of the Expected Grid Index Precipitation across a series of two-month intervals.

PRF insurance is for perennial forage intended for use as livestock feed and it is widely used by livestock producers across the United States, as further described in the October RightRisk News. In contrast, AF insurance provides coverage for annually planted forage crops intended for use as livestock feed. AF insurance is only available across eight states in the middle of the country and its use in terms of acres covered is only about 2-3 percent of what is insured under PRF. However, because of the higher dollar value per acre that can be insured under AF versus PRF, the dollar value of total premiums for AF coverage is about one-third of the total for PRF, even though it is available in less than 10 percent of the states.

Use of these RI insurance products doubled over the period from 2018 to 2022 and is up again in 2023 (Table 3). The widespread drought conditions of the last three years has led to high loss ratios and driven much of the increase in demand. Overall, 90 percent of the policies earning premium from 2018-2022 were paid at least some indemnity and the overall loss ratio was 1.20.

Traditional crop insurance policies

Despite the increase in the use of livestock and RI insurance programs over the last few years, most of the growth in federal crop insurance program participation is explained by the other more traditional crop insurance plans. Table 4 outlines the summary of business for crop insurance plans exclusive of livestock, RI, and Whole Farm Revenue

Table 4: United States Summary of Business for Crop Insurance Plans 2018-2022, excluding Livestock, Rainfall (RI), and Whole Farm Revenue Protection (WFRP) insurance programs.						
Insurance Plan	Number of Policies Sold	Policies Earning Premium	Policies Indemnified	Total Premiums	Total Indemnities	Loss Ratio
2018	2,120,176	1,073,563	294,949	$9.2 billion	$6.6 billion	0.72
2019	2,110,500	1,067,464	403,457	$9.3 billion	$10.0 billion	1.07
2020	2,135,230	1,071,726	311,954	$9.2 billion	$7.6 billion	0.83
2021	2,176,787	1,116,968	257,168	$12.5 billion	$8.2 billion	0.66
2022	2,210,677	1,132,861	405,406	$16.8 billion	$17.1 billion	1.01

Protection (WFRP) insurance programs.

Seventy percent of the growth from 2020 to 2022 in insurance policies earning premiums and 86 percent of the growth in total premiums (Table 1) can be explained by growth in crop insurance plans (Table 4). The growth in total crop insurance premiums is a combination of the growth in policies earning premiums and the high commodity prices for corn, soybeans, wheat, etc., that have driven up the value of total liability.

Table 5: United States Summary of Business for Whole Farm Revenue Protection (WFRP) insurance plans 2018-2022.

Insurance Plan	Number of Policies Sold	Policies Earning Premium	Policies Indemnified	Total Premiums	Total Indemnities	Loss Ratio
2018	2,526	2,490	706	$135.7 million	$154.7 million	1.14
2019	2,219	2,157	743	$130.8 million	$198.4 million	1.52
2020	2,058	2,028	533	$132.0 million	$123.3 million	0.93
2021	1,935	1,917	360	$124.4 million	$75.1 million	0.60
2022	1,805	1,757	224	$125.3 million	$36.7 million	0.29

Whole Farm Revenue Protection

Finally, a brief mention of the Whole Farm Revenue Protection (WFRP) insurance program is warranted. WFRP was developed to provide a safety net for all commodities on a farm under one insurance policy. Nationally, it has struggled to gain much in the way of widespread use (Table 5). WFRP use is concentrated in two states, Washington and California, with half of all policies concentrated in these two states. Washington apple growers have found WFRP to be a useful policy for risk management protection on their farms.

WFRP coverage is tied to annual tax returns. As such, the 2022 data in Table 5 is subject to change. To date, one-fourth of the WFRP policies sold for the 2018-2022 crop years have been indemnified and the loss ratio over that period is 0.91. WFRP is heavily subsidized and the average premium subsidy over that same period is over 71 percent. This reduces the producer premium and increases the loss ratio experienced by the producer to 3.19.

With a robust and established federal crop insurance program providing broad coverage for the commodity crops grown on many acres across the country, use of WFRP has been isolated, mainly to specialty crop production. Whole Farm Revenue Protection can be used to support new and beginning farmers and ranchers, as well as other segments of the agricultural industry. It is interesting to consider how these products could be integrated into initiatives focused on these groups.

See the Risk Management Agency website (**rma.usda.gov**) for comprehensive access to crop insurance Summary of Business reporting tools.


J.P. Hewlett

~ Other RightRisk News ~

News Release - October 24 | RightRisk

Federal Reserve Beige Book Summary on the Agricultural Sector

MOST DISTRICTS indicated little to no change in economic activity since the September report. Consumer spending was mixed, especially among general retailers and auto dealers, due to differences in prices and product offerings . . .

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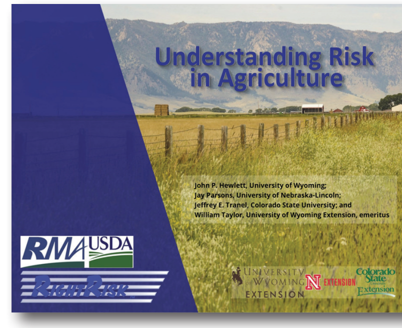
Highlighted Course

In popular usage, risk is generally understood to mean future events for which the outcomes are unknown or uncertain. However, it is important to note that not all aspects of the unknown future are created equal. People tend to think that complex problems require complex solutions when faced with risk alternatives. This tendency compounds the challenges even further. With risk the opposite is true. Understanding Risk in Agriculture is an online, self-paced learning module designed to help clear away some of the misunderstandings around risk and risk management. The module includes slides with audio, an electronic text, a recorded webinar and much more at no cost for access.

To view the *Understanding Risk in Agriculture* online module, see **RightRisk.org** > Courses.



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