How Crop Insurance Works

The Basics
Behind the Policy

• Federal Crop Insurance Corporation
  – Board of Directors
    • Approve Policies
    • Policy changes
    • General direction of program
  – Risk Management Agency
    • Administers the policies
    • Oversees the program
Behind the Policy

• Agent
  – Independent
  – Captive
    • Several companies such as Farm Bureau

• Managing General Agency/Company

• Reinsured Company
  – Service policy
  – Cedes unwanted liability to FCIC
  – Cedes unwanted liability to outside reinsurers
Basic Parts of Crop Insurance Program

• Basic Provisions
  – The underlying policy for majority of crop insurance programs
    • Corn, soybeans, wheat, cotton, tobacco, etc.

• Crop Provisions
  – The provisions specific to crops
    • Coarse grains, Small grains, Cotton, Processing Beans, etc.

• Special Provisions
  – The provisions that are specific to a crop and county
    • Contains the rates, Transitional yields, dates, etc.

• Catastrophic Risk Endorsement
  – Contains provisions specific to Catastrophic Level of Insurance
Terms and Definitions

• Insured Crop
  – Crop in which coverage is available under Basic Provisions and applicable Crop Provisions

• Policy
  – Agreement between policyholder and company consisting of:
    • Accepted application
    • Basic Provisions
    • Crop Provisions
    • Special Provisions
    • Other applicable options and/or endorsements
    • Actuarial Documents for the insured crop
    • CAT endorsement (if applicable)
    • Other applicable regulations published in the Federal Register
Terms and Definitions

• Actuarial Documents: Crop and Crop Year specific information
  – Amount of insurance
  – Production guarantees
  – Coverage levels
  – Premium rates
  – Practices
  – Insurable acreage
  – Other related information for the county
Terms and Definitions

• Summary of Coverage
  – The insurance company’s statement to the policyholder
    • Specifies the amount of coverage by unit

• Written Agreement
  – Document that alters designated policy terms if allowed by policy terms

• Crops without Actuarial in the county
Term and Definitions

• Additional Coverage
  – Coverage greater than Catastrophic Level

• Administrative Fee
  – Amount the policyholder must pay each year as specified in Section 7 Common Crop Provisions and Catastrophic Crop Provisions
Terms and Definitions

• Coverage
  – Insurance provided by the crop insurance policy against
    • Loss of production and/or value
    • By Unit

• Catastrophic Risk Protection
  – Minimum level of coverage offered by Federal Crop Insurance
    – 50% level of coverage at 55% or price
Terms and Definitions

• Actual Production History- APH
  – Yield calculated and approved by the company, used to determine the production guarantee
  – Determined by summing the yearly actual, assigned, adjusted or unadjusted transitional yields, and
  – Dividing the sum by the number of yields contained in the database, which will be
Terms and Definitions

• Deductible
  – Amount of loss incurred before insurance coverage begins
  – Determined by subtracting coverage level from 100%
  – Example: 65% coverage level would have a 35% deductible (100%-65%= 35%)
Terms and Definitions

- **Price election**
  - Prices contained in special provisions or an addendum to the Special Provisions
  - Used to compute the guarantee, premium and indemnity

- **Production guarantee**
  - Number of pounds, bushels, tons, cartons, or other unit of measure determined by
    - Multiplying the approved yield per acre by the coverage level percentage selected by policyholder
Term and Definitions

• Abandon
  – Failure to care for the crop
    • Providing to little care for the crop and/or
    • Failure to harvest in a timely manner
    • Unless prevented by an insured cause of loss

• Agricultural commodity
  – Any crop of other commodity producer whether it is insurable or not
Terms and Definitions

• Crop Year
  – Period within which the insured crop is normally grown
  – Designated by the calendar year in the insured crop is normally harvested

• Damage
  – Injury, deterioration, or loss of production
Terms and Definitions

• Good Farming Practices
  – Production methods utilized which will allow the crop to produce at least the yield used to determine the production guarantee
  – For conventional or sustainable farming practices
    • Practices generally recognized by agricultural experts for the area
  – Organic Farming Practice
    • Practices generally recognized by the organic agricultural industry for the area
Terms and Definitions

• Interplanted
  – Acreage on which two or more crops are planted
  – Does not permit separate agronomic maintenance or harvest

• Irrigated practice
  – Water is artificially applied during the growing season by appropriate systems and proper time
    • With intention of providing quantity of water needed to produce
      – At least the yield used to establish the irrigated production guarantee; or
      – Amount of insurance on the irrigated acreage planted to the insured crop

• Late planted
  – Acreage initially planted after the final planting date in Special Provisions
Terms and Definitions

• Negligence
  – Failure to use such care as a reasonably prudent and careful person would use in same conditions

• Planted acreage
  – Land in which the insured crop has been properly planted
Terms and Definitions

• **Acreage Report**
  – Report which contains
    • Your share of all acreage of the crop in the county whether insurable or not
    • Must by filed by Acreage Report date in Special Provisions for the county

• **Application**
  – Form that must be complete by policyholder and accepted by company before insurance coverage will commence
Terms and Definitions

• Practical to replant
  – Insurance Company determination after loss or damage based on all factors including
    • Moisture availability
    • Marketing window
    • Condition of field
    • Time to crop maturity
    • Replanting the crop will allow appropriate time for crop to mature prior to end of insurance period
    • Available of plants/seeds and costs is not a factor

• Prevented planting
  – Failure to plant the insured crop by the final planting date designated in the Special Provisions for the county
    • Must be prevented from planting by an insured cause of loss that is general in the area
Terms and Definitions

• Replanting
  – Replacing the seed of plants of damaged crop with same crop in the insured acreage
    • With expectation of producing at least the yield used to determine the production guarantee

• Representative sample
  – Portion of the insured crop that must remain in the field for examination by company loss adjuster

• Timely planted
  – Planted on or before the final planting date designated in the Special Provisions for the
Terms and Definitions

• Claim for Indemnity
  – Claim made by policyholder for damage or loss to and insured crop

• Consent
  – Approval in writing by the insurance company for policyholder to take specific actions

• Notice of loss
  – Policyholder must notify company within timeframes outlined in crop provisions.
Terms and Definitions

- **Optional Unit**
  - For some crops Policyholder may subdivide basic units by:
    - Practice
    - Section; or sectional equivalent
    - Farm Serial Number

- **Enterprise Unit**
  - All acreage of insured crop in the county in which the policyholder has a share, must consist of:
    - Two or more basic units of the same insured crop that are located in two or more separate sections, sectional equivalents or Farm Serial Numbers; or
    - Two or more optional units of the same insured crop established by separate, Sections, sectional equivalents, or Farm Serial Numbers.

- **FSA Farm Serial Number**
  - Number assigned by Local Farm Service Agency Office to a farm.
Terms and Definitions

• Production Report
  – Written report showing policyholders annual production
  – Insurance company using this production data to determine policyholder yield for insurance purposes
  – Must be supported by written verifiable records

• Basic Unit
  – All acreage of the insurable crop in county on the date coverage begins for the crop year
    • In which the policyholder has 100% share; or
    • Which is owned by one person and operated by another person on a share basis.
Terms and Definitions

• Enterprise Unit
  – All insured acreage of crop in a county

• Whole Farm Unit
  – All acreage of the insured crops in the county in which the policyholder has a share

• Section
  – Unit of measure under rectangular survey system
    – Usually 1 mile square and usually containing 640 acres
Terms and Definitions

• Assignment of Indemnity
  – Arrangement whereby you assign your right to an indemnity to another party for the crop year

• Person
  – Individual, partnership, association, corporation, estate, trust or other legal entity.
  – Wherever applicable a State or a political subdivision or state agency
  – Does not include the US Government or any agency of the government
Terms and Definitions

• Insured
  – The person whose name is on the application
  – Does not extend to other persons having a share in the crop unless specifically indicated and accepted on the application

• Share
  – Policyholder percentage of interest the insured crop as an owner, operator or tenant.
Terms and Definitions

• Tenant
  – Person who rents land from another person for a share of the proceeds of the crop

• Substantial beneficial interest
  – Interest of at least 10% in the insured crop
Important Dates

• Acreage Reporting Date
  – Date by which the policyholder is required to submit an acreage report

• Cancellation Date
  – Date specified in the Crop Provisions on which coverage for the crop will renew unless canceled
Important Dates

- **Contract Change Date**
  - Date by which the insurance company or Federal Crop Insurance Corporation may make changes to the policy

- **Days**
  - Calendar days

- **Delinquent Account**
  - Account in which premiums and interest on those premiums is not paid by date specified in crop provisions
Important Dates

• Earliest Planting Date
  – The earliest date you may plant the insured crop and be eligible for a replant payment
  – Listed in the Special Provision for the county

• End of Insurance Period
  – Date upon which crop insurance ceases for the year
Important Dates

• Final Planting Date
  – Date by which the crop must be initially planted in order to receive the full production guarantee
  – Listed in the County Special Provisions

• Late Planting Period
  – Period that begins the day after the final planting date and extends 25 days later, unless otherwise specified in the Crop Provisions or Special Provision
Important Dates

• Premium billing date
  – Earliest date upon which you will be billed for insurance
  – Date is listed in the county Special Provisions

• Sales closing date
  – Date by which an application must be filed
  – Specified in the County Special Provisions
    • NC Spring crops  February 28
    • NC Fall Crops  September 30
    • Perennial Crops  November 20
Important Dates

• Termination Date
  – Date upon which your insurance ceases to be in effect because of non payment of any amount due the company or Federal Crop Insurance Corporation
  – Specified in Special Provisions
Contact Information

Producers are strongly urged to contact a local crop insurance agent as soon as possible for more detailed information and premium quotes.

For a list of crop insurance agents, contact the local USDA Farm Service Agency office or logon to the following Risk Management Agency web site: http://www.rma.usda.gov/tools/agents/

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