

# The new Common Crop Insurance Policy

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## Introduction

For several years the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) and the various private insurance companies that deliver crop insurance protection to millions of producers across the country have been negotiating a major overhaul of the basic policy that is used for most insurable crops. The new policy will go into effect for crops insured in 2011. Producers, crop consultants and educators need to be aware of the new provisions and terminology.

## Insurance plans

Over the past 20 years several new types of crop insurance policies have been introduced. Major changes included insuring gross revenue instead of bushels, and basing guarantees on county yields instead of individual farm yields. Eventually the number of choices became longer and longer, and more confusing. The new Common Crop Insurance Policy (sometimes known as “COMBO”) simplifies and streamlines the choices.

The new policy applies to all the major grain and fiber crops grown in the U.S., including corn, soybeans, grain sorghum, wheat, barley, cotton, rice, canola and sunflowers.

## Individual plans

Instead of a different policy for each type of insurance, there will now be one master policy with several options:

- Yield Protection
- Revenue Protection
- Revenue Protection with Harvest Price Excursion

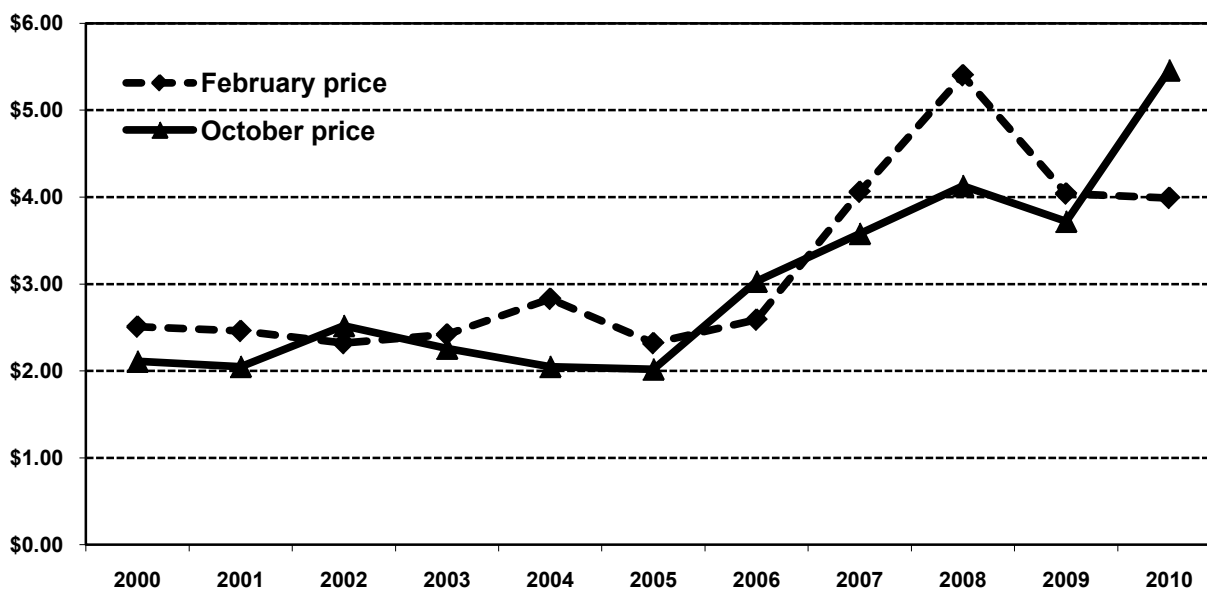
Yield Protection (YP) is equivalent to the old Actual Production History (APH) policy. Yield protection establishes a guarantee based on the APH yield, which is determined by 4 to 10 years of actual yield records. No changes were made in how APH yields are calculated for each insurance unit. Producers can choose to guarantee from 50 to 85 percent of their current APH yield. A major change from the old APH policy is that the indemnity price used to calculate the payment made to the producer in the event of a loss is now the same as the price used for revenue insurance policies, i.e. the average closing futures price for each working day during the month of February (for spring planted crops). Previously, RMA announced a projected harvest cash price for each crop, which was almost always lower than the February futures price. The indemnity price for corn is an average for the December contract on the Chicago Board of Trade (CBOT). For soybeans the November CBOT contract is used. Producers can choose to use from 55 to 100 percent of this price for the indemnity price at which yield losses are paid. Naturally, choosing a higher price results in a higher premium. Catastrophic level coverage (CAT) is available based on 55 percent of the indemnity price and 50 percent of the APH yield, for a cost of \$300 per crop.

Alternatively, a producer can choose Revenue Protection (RP), which is equivalent to the old Crop Revenue Protection (CRC) and Revenue Assurance with the harvest price option (RA-HPO). Revenue Protection guarantees the insured producer a minimum number of dollars of gross revenue per acre. The yield used to set the guarantee is the same as the APH yield used for Yield Protection, and the price is the same February futures price. The guarantee is the product of these two values, times the level of guarantee selected (from 65 to 85 percent). There is no option to select less than 100 percent of the February price for the guarantee.

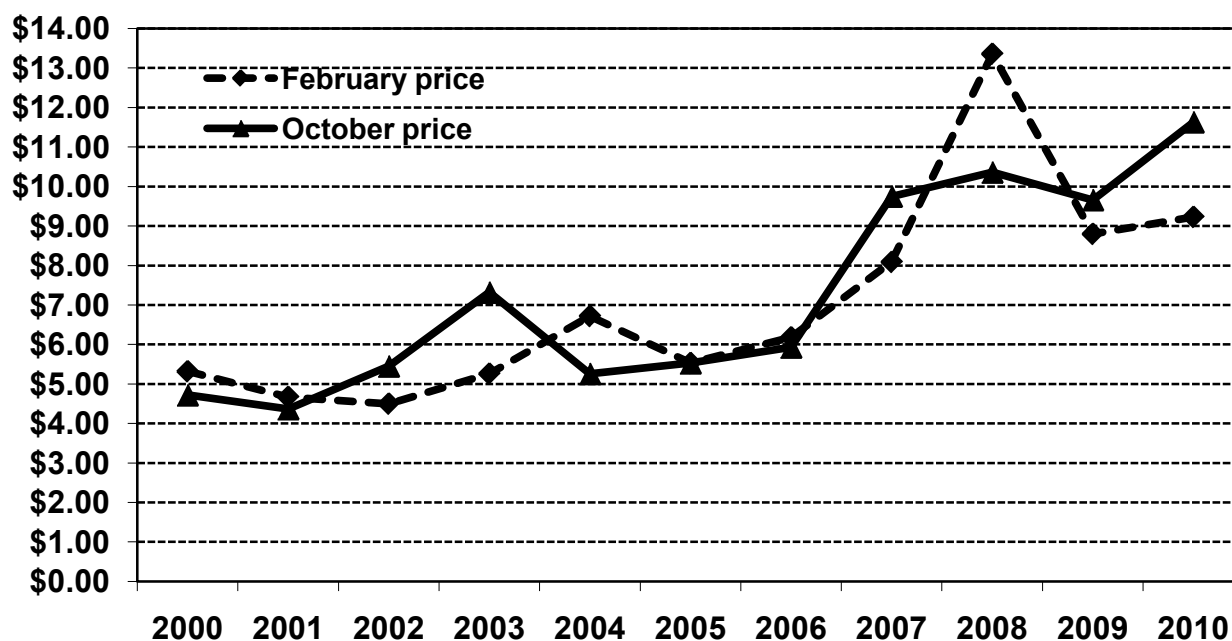
If the average CBOT price for relevant contracts during the month of October is higher than the February price, the guarantee is raised, based on the October price. The October price is also used to calculate the “actual” revenue. This is exactly the same procedure that was used previously for CRC policies. RA policies used the average November price for corn, but the new Revenue Protection option will use the October price for both crops. Approximately 85 percent of the insured corn and soybean acres in Iowa in 2010 were covered with this type of policy.

The third option is called Revenue Protection with Harvest Price Exclusion (RPE). It is equivalent to the former basic Revenue Assurance policy, except that the harvest price for corn is the average CBOT price in October instead of November. Under this option the guarantee does not increase even if the October price is higher than the February price. Consequently, premiums will be lower for RPE than RP.

Figures 1 and 2 illustrate the relationship between the February and October futures prices for corn and soybeans since 2000. The October corn price has exceeded the February price only 3 times in the past 11 years, while the soybeans price has increased five times.



**Figure 1.** February and October average CBOT prices for December corn contract.



**Figure 2.** February and October prices for November soybean contract.

## Area plans

Three insurance options based on county yields instead of individual farm yields are still available:

- Group Risk Plan (GRP)
- Group Revenue Insurance Plan (GRIP)
- Group Revenue Insurance Plan with harvest price option (GRIP-HPO)

The only significant change to these policies is that GRP will use the average February futures price as its indemnity price, just like the Yield Protection option. Group risk policies have not been widely used in Iowa, typically accounting for only about four percent of the total insured acres in the state.

Table 1 summarizes the old and new terminology. Current policies will automatically be converted to the corresponding policy option for 2011 unless the producer requests a change.

**Table 1.** Old and new crop insurance policy options

Old policy option	New policy option
Actual Production History (APH)	Yield Protection (YP)
Crop Revenue Coverage (CRC), Revenue Assurance with Harvest Price Option (RA-HPO)	Revenue Protection (RP)
Revenue Assurance (RA), Income Protection (IP)	Revenue Protection with Harvest Price Exclusion (RPE)

Previously CRC and RA used different methodology for computing premiums each year. In some years RA-HPO was cheaper than CRC, and in other years CRC was cheaper, despite the fact that they offered essentially the same coverage. Under the new Common Crop Insurance Policy only one set of premiums will be offered, and the methodology will be similar to that used for Revenue Assurance. The level of premium subsidies provided by RMA will not change.

## Enterprise and whole farm units

Two years ago RMA increased the level of premium subsidies for policies specifying enterprise and whole farm units, to match more closely the percent subsidies for basic unit coverage. Many producers elected to shift to enterprise units, and bought a higher level of guarantee for essentially the same cost as for a lower guarantee under basic units.

This will be continued under the new common policy. Enterprise and whole farm units offer producers a substantial savings in premiums compared to basic or optional units. Previously CRC based the discounts on the number of acres insured, while RA used the number of township sections included in the policy. The new common policy requires that the acres covered must be located in at least two sections or two Farm Service Agency (FSA) units within a county to qualify for enterprise unit designation. A single FSA unit can qualify if it is at least 660 acres. In addition, at least two of the sections or FSA units must be larger than the lesser of 20 acres or 20 percent of the total acres. Thus, one large unit combined with one small unit may not qualify.

Whole farm units are also available for Revenue Protection (but not Yield Protection), in which all insurable crops are combined into one coverage unit. The revenue guarantee and the actual revenue are aggregated over all the insured crops. The policy must include at least two crops that each make up 10 percent or more of the total planted acres.

By combining more acres and farm units into a single policy, the probability of collecting at least a small payment each year is reduced. The more spread out the individual units are, the more this is true. However, when an indemnity payment is triggered, it will likely be larger payment. Moreover, the biggest risk in recent years has come on the price side of the equation rather than the yield side, and price declines have the same effect on enterprise and whole farm coverage as they do on basic or optional units. Nevertheless, farmers who opt for enterprise or whole

farm coverage may want to consider purchasing add-on coverage to take care of localized weather events such as hail.

There are a number of other minor changes in the new common policy, but most will be of interest only to crop insurance agents and providers.

## **Summary**

In contrast to new commodity payment programs offered by the USDA, the new common crop insurance policy simplifies and enhances producers' choices without requiring them to give up any benefits that they have enjoyed in the past.

## **References**

Risk Management Agency (USDA). 2010. Common Crop Insurance Policy: Frequently Asked Questions. <http://www.rma.usda.gov/help/faq/combo.html>.

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