

Landowner 101: Crop Insurance

Published on Mar 3, 2020 by Mollie Aronowitz, AFM



Photo: Central Iowa farmland affected by excessive spring rains spring 2018.

As the 2020 growing season rapidly approaches, farm operators are finalizing crop input plans and buttoning up any last-minute land contracts. Many in the Midwest will hope to be planting corn by the middle of next month.

Peoples Company Land Managers have fielded questions from non-farming landowners anxious to learn how operations are preparing for the unknowns that lie ahead in the 2020 season. Concerns over Mother Nature and commodity prices are at the top of the list.

One of the most commonly used risk management tools continues to be crop insurance. When a farm operator suffers loss from reduced yield or revenue, crop insurance provides a safety net to help farm operators financially recover. This allows them to pay their bankers, input suppliers, landlords, as well as prepare for the next season and invest in repairs/improvements that ultimately improve long term productivity.

The ins and outs of crop insurance can be confusing for the average person. Below are some brief answers to common questions we hear at Peoples Company:

What exactly is crop insurance?

- Crop insurance falls into two categories: Crop-Hail and Multiple Peril Crop Insurance (MPCI).

- Crop insurance is like other forms of insurance where risk of loss is spread over a large pool of participants. Sharing of the risk allows lower premium prices for everyone involved. Like other forms of insurance, farm operators must pay a premium and then absorb a loss up to their deductible.
- Crop insurance can be unlike other forms of insurance because farm losses are typically location specific and severe when it occurs. Example: a flood can be catastrophic for a whole region, with full loss to many growers. The federal government subsidizes crop insurance due to the higher risk of losses, allowing affordable premiums for farm operators.

What does crop insurance cover?

- As the name implies, Crop-Hail policies cover loss from hail damage.
- MPCCI policies cover financial loss of a crop caused by natural disasters like draught, floods, insects, disease, and tornados. Financial loss from adverse market conditions can also be covered.

Who administers crop insurance?

- Crop-Hail policies are provided by private insurers while MPCCI policies are a public-private partnership.
- MPCCI is regulated by the United States Department of Agriculture Risk Management Agency (USDA RMA) and then issued by private insurers. The USDA RMA annually sets policy cost/crop coverage and then the private insurers administer the program.
- There are currently 15 private insurers authorized by USDA RMA to issue MPCCI policies. These companies must sell crop insurance to eligible farm operators at the federally-set price.

What does crop insurance cost?

- Farm operators pay a premium based on the crop and level of coverage required.

Who benefits from crop insurance?

- While farmers use crop insurance indemnities to financially recover, crop insurance also benefit the larger public. Non-farming landowners benefit by aligning with farm operators who have a strong understanding of risk management with adequate planning in place if disaster strikes.
- When farm operators in a rural community can bounce back from a natural disaster, so can the community. Farm operators are able to deliver on expenses for inputs and services that keep a local economy running.

Do farm operators make money off crop insurance?

- Farm operators must first pay a premium to be covered on crop insurance, and then pay a portion of losses to meet the deductible. An average farm operator must lose 25% of the crop value before a policy begins to pay.
- Like other forms of insurance, crop insurance is an annual payment for coverage with an indemnity paid only under extreme circumstances. Sustainable farm operations depend on high yields and market prices to succeed, not insurance payments in extreme weather or market circumstances.

Crop insurance is one of many management tools farm operators utilize in their business planning to leverage risk. Peoples Company Land Managers can provide valuable industry experience and knowledge to non-farming landowners interested in learning more about the various aspects of a farm operation.

Landowners seeking consulting or full management services are encouraged to email LandManagement@PeoplesCompany.com or call 855.800.5263 (LAND) to learn more.

