

HISTORY OF CROP INSURANCE IN THE UNITED STATES

Steven C. Harms, Executive Vice President
Rain and Hail L.L.C.

Few sectors of the economy are as susceptible to the influence of nature as is agriculture. While science and technical knowledge have enabled the farmer to avoid or eliminate some dangers which menace harvest, the farmer remains powerless to avert damaging or total loss from weather hazards, insects and other forms of natural disaster.

Crop Hail Insurance History

Seasonal hail storms injure or destroy crops. Expenses and months of labor can be destroyed in minutes. Like other natural hazards, such as flood, freeze, and drought, hail has an adverse effect on the farm economy.

Hail insurance is a pure and authentic form of catastrophic coverage. The primary purpose is to protect the economic position of the grower against one of nature's most devastating perils.

Hail Insurance was first offered in the U.S. in 1880 when tobacco growers in Connecticut banded together and organized a company. It discontinued business after seven years and was promptly followed by another hail organization in an adjoining county. By 1919, hail insurance protection had increased to 560 million dollars in the U.S. This was to be peak coverage through the Depression and Dust Bowl era, and it was 1943 before the industry exceeded the 560 million dollar level again.

Coverage today is counted in the billions of dollars of liability with coverage available on virtually every crop in virtually every state in the U.S. The greatest amount of hail insurance is written in the corn belt and upper Midwest with Iowa, Illinois, Kansas, Minnesota, Nebraska and North Dakota leading the way. Southern states such as Texas and North Carolina also write significant amounts of coverage. Another important region is Montana and the Pacific Northwest.

Multiple Peril Crop Insurance (MPCI) History

Many companies who write hail insurance are providers of the federal program of multiple peril crop insurance. In 1938 Congress formed the Federal Crop Insurance Corporation (FCIC) with three objective in mind, "(a) to protect the income of farmers against crop failure or price collapse; (b) to protect consumers against shortage of food supplies and extreme of prices; and (c) to assist business and employment by providing an even flow of farm supplies and establish stable farm buying power."

The original program was delivered by the Agricultural Stabilization and Conservation Service (ASCS) employees with insurance only available on wheat and cotton.

Participation was very low and losses were extremely high. In fact, due to heavy losses in the early 40's, the program was discontinued but restored in 1945. In 1947, Congress reduced the scope of the program in order to mitigate losses.

From 1953 until 1980, FCIC delivered the program through its own employees. This effort also suffered from low participation, but loss ratios were much lower than in the early program. Losses were brought under control because underwriting and loss adjustment controls were introduced. The program reacted to negative experience by increasing premiums, reducing coverage or closing sales.

1980 Crop Insurance Act

The passage of the Federal Crop Insurance Act of 1980 marked the birth of the present federal crop insurance program and the start of the public/private partnership that has been the foundation for its success. With the passage of this Act, Congress for the first time embraced the goal of establishing a program that could provide protection for all farmers in all regions, with the intent that it replace ad hoc disaster payments. The Act contained numerous provisions designed to increase participation by farmers in the program. Previous limitations in Federal Crop Insurance Corporation's (FCIC) ability to offer reinsurance to private companies were eliminated. Congress expected that the private sector would play a major role in marketing the program to farmers and increasing the number of farmers who took advantage of the protection that it offered.

In fact, in the years following the passage of the 1980 Act the size and scope of the program expanded dramatically. The number of county crop programs (i.e., an insurance contract for a particular crop in a particular county) grew from under 5,000 in 1980 to more than 15,000 in 1983. This rapid increase was primarily due to the entrance of existing crop programs into new counties. By 1990 the number of crops for which insurance was available had increased to 50, from 28 in 1980, and nearly all of the nation's counties were represented in the crop insurance program.

Even following passage of the 1980 Act, however, the USDA continued to provide agricultural disaster assistance outside of the crop insurance program in the form of direct cash payments and subsidized loans. Over the 1981 to 1988 period the Agricultural Stabilization and Conservation Service (ASCS) dispensed \$6.9 billion to direct disaster payments, with \$5.6 billion related to crop losses and the remainder to livestock, feed and conservation programs. Payments peaked in 1981, 1988 and 1989 due to severe droughts. The 1988 drought was one of the worst on record, especially for central United States, and the Disaster Assistance Act of 1988 made more than \$4 billion available for disaster relief. In the following year, the Disaster Assistance Act of 1989 provided about \$897 million in ad hoc disaster relief and allocated \$1.48 billion to cover drought losses. Total disaster payments in fiscal year 1989 exceeded \$4 billion. Following widespread flooding and drought in 1993 and 1994, the Midwest Flood and Southeast Drought Aid Act provided another \$3.25 billion in disaster payments. In fiscal year 1994 the ASCS dispensed over \$3.1 billion in disaster relief.

The program since 1981 has suffered from smaller than anticipated participation,

catastrophic weather and rapid expansion, all of which have contributed to high loss ratios. Because of low participation and a series of large scale natural disasters, Congress passes disaster legislation frequently in response to appeals from their constituencies. Because of high loss ratios, low participation and frequent disaster payments, a number of efforts were undertaken in the early 1990s to improve the program. FCIC beefed up its compliance efforts and initiated a series of underwriting improvements.

Crop Insurance Reform Act of 1994

The most significant change in the program occurred with passage of the Crop Insurance Reform act of 1994 which effectively eliminated ad hoc disaster payments offering farmers a standing disaster or catastrophic program available to all for a small administrative fee. The catastrophic coverage is available from both the government and private sector insurance agents. Instead of the catastrophic level, farmers may “buy up” to the standard multiple peril coverage available only from a private insurance carrier. This reformed crop insurance program reflects the maturing nature of the federal program and should provide more long-term stability.

At the time the 1994 Act was passed, participation in the program was expected to increase to 80 percent. These hopes could not have been realized without assistance from the private sector. Only the private companies could supply the sheer manpower needed to deliver the new catastrophic crop insurance product to the nation's farmers; the governments simply did not have sufficient resources to do the job.

Although the implementation of the 1994 Act represented a major challenge, private industry rose to the occasion. The new program offering catastrophic insurance coverage was implemented successfully. In the year following passage of the 1994 Act participation rates rose to 88 percent. Since that time private industry has assumed exclusive responsibility for the delivery of catastrophic insurance coverage in fourteen states and is expected to assume similar responsibility in other states soon. Although participation rates have fallen somewhat since the repeal of the 1994 Act provisions that made crop insurance a prerequisite for receipt of agricultural program benefits, they have remained well above the 50 percent goal set by Congress in 1980.

The widespread availability and high participation rates that have recently been achieved with the help of the private sector have finally permitted Congress to attain its long-sought goal of turning the crop insurance program into a replacement for ad hoc agricultural disaster assistance.

In the 1994 Act, Congress sought to eliminate ad hoc disaster assistance, and enlisting the private sector to increase the participation in the program was an integral part of its strategy. Congress has so far not wavered in its resolve to rely on the crop insurance program as its sole vehicle for delivering assistance to farmers stricken by natural calamities. However, if participation rates were to fall to the levels experienced during the 1980's, a significant natural disaster could result in nearly irresistible political pressures for a return to reliance on ad hoc disaster assistance appropriations. Such an outcome would erase the results of Congress' twenty-year effort to rein in these programs.

The impressive expansion in the crop insurance program cited above has been achieved at a surprisingly modest cost. Total administrative costs for the program have, of course increased, growing from less than \$100 million in 1981 to \$319 million in 1994. Given the growth in the scope of the program, however, some increase in administrative costs was to be expected. During this time, total premiums paid increased very substantially, and the percentage of sales made by private companies grew from 36.4 percent in 1983 to 93.2 percent in 1993. However, on an inflation-adjusted per-insured-acre basis both reinsured company administrative costs and total program administrative costs have declined since the mid 1980's.

The Viability of the MPCl Program Depends Critically on Continuing Participation of Private Insurers

The MPCl program could not exist in anything resembling the present form without the active participation of private insurers. Their involvement has been a key element in Congress' efforts to establish an insurance program that would be widely available to all of the nation's farmers. They have supplied the resources and the manpower necessary to deliver insurance to all areas of the country. They have provided valuable expertise that has shaped the evolution of the program design and product concepts. Throughout the modern crop insurance program's period of evolution and growth members of Congress have been particularly aware of the critical role played by private insurers and on many occasions Congress sought to preserve an active and vital role for insurers.

Even this brief examination of the history of the program's expansion and evolution indicates clearly that both Congress and the nation's farmers have a strong and continuing interest in encouraging widespread participation by private companies in the Multiple Peril Crop Insurance Program. Congress has clearly recognized the critical role played by private insurance companies and has taken steps, in all key pieces of legislation it has passed since 1980, to ensure their continuing involvement.

Conclusion

The crop insurance industry has changed significantly since its early days. Policies, procedures, and techniques have been modified over the years. The industry is constantly evaluating its insurance products-both crop-hail and MPCl- in an ongoing effort to make sure that they are relevant and affordable for the insurance public. As a result, the American farmer has more and better options to manage risks than at any time in history.