

September 13, 2021

Federal Crop Insurance Program Support for Natural Disasters

Natural disasters—events such as severe droughts, floods, and storms—can cause crop and animal production losses as well as other physical and financial losses for farm operations. The Federal Crop Insurance Program (FCIP) offers farmers the opportunity to purchase insurance against financial losses caused by certain adverse growing and market conditions. By insuring against adverse growing conditions, FCIP policies may also indemnify farmers for financial losses caused by certain natural disaster events. The extent to which the FCIP indemnifies farmers for losses related to natural disasters depends on the type of disaster, the type of FCIP policy purchased, and the level of coverage selected by the producer.

The FCIP is permanently authorized under the Agricultural Adjustment Act of 1938 (P.L. 75-430, 52 Stat. 72) and the Federal Crop Insurance Act of 1980 (P.L. 96-365, 7 U.S.C. §§ 1501 et seq.), as amended. It has permanent, indefinite funding authority. The FCIP does not require a federal disaster designation or declaration to trigger payments. FCIP insurance policies are priced according to their actuarial ratings. The federal government subsidizes the premiums that farmers pay for these insurance policies to encourage farmer participation in the program. For more information, see CRS Report R46686, *Federal Crop Insurance: A Primer*.

In addition to the FCIP, the U.S. Department of Agriculture (USDA) offers a number of assistance programs designed to address agricultural losses following a natural disaster. For an overview of these programs, see CRS In Focus IF10565, *Federal Disaster Assistance for Agriculture*.

Insured Perils

FCIP crop insurance policies insure against losses due to drought; heat; hail; excess moisture, precipitation, or rain; frost; freeze; cold, wet weather; wind; tornado; cyclone; hurricane or tropical depression; certain fires; earthquake; insect and wildlife damage; plant disease; volcanic eruption; and certain other causes of loss. The policies also cover lack of irrigation water when caused by disasters or natural conditions. Certain policies insure against losses caused by declines in market prices.

Coverage Availability

FCIP coverage is available for purchase in all U.S. counties. The FCIP insures most field crops, a wide variety of specialty crops, and grazing lands. Coverage must be purchased before a natural disaster event.

For most crops insured under the FCIP, coverage is measured in relation to average yields or revenues. Catastrophic (CAT) coverage provides indemnities when realized crop yields are between 0% and 50% of average

farm yields or between 0% and 65% of average county yields. Higher levels of yield coverage and revenue coverage are available in 5% increments. For some policies, coverage may exceed 85%. To mitigate against farmers' tendency to take on extra risk after purchasing insurance (i.e., moral hazard), no policies provide 100% loss coverage.

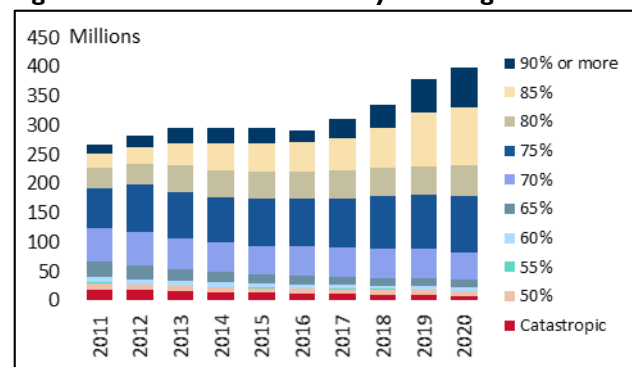
Additionally, certain annual crops may be eligible for FCIP indemnities if adverse weather and other naturally occurring conditions prevent timely planting. For details about these payments, see CRS Report R46874, *Federal Crop Insurance Program (FCIP): Replanting, Delayed Planting, and Prevented Planting*.

The federal government fully subsidizes premiums for CAT coverage. Farmers pay an increasing share of the premiums for higher levels of coverage, up to a maximum of 62% of the total premium. In addition to their share of premium costs, farmers pay administrative fees per crop per county. Federal outlays for the FCIP averaged \$8.2 billion per year from FY2011 to FY2020.

Coverage Purchased

From 2011 to 2020, the total acreage insured through the FCIP increased from 266 million to 398 million acres (Figure 1). The share of acres insured at higher coverage levels also increased over this period. Both of these trends have increased the aggregate support that the FCIP can provide for natural disasters when they occur.

Figure 1. FCIP Acres Insured by Coverage Level



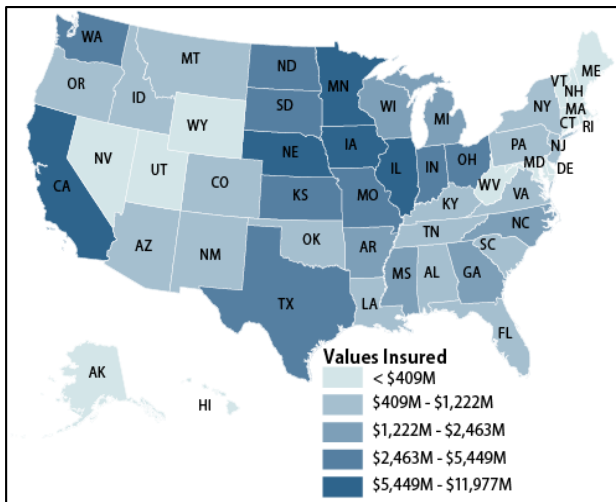
Source: CRS using data from USDA Risk Management Agency Summary of Business database, downloaded August 18, 2021.

Notes: Years are crop years. Includes crops insured under acreage policies only. Catastrophic includes yield coverage only. Other coverage levels include yield and revenue coverage.

States with higher crop values insured under the FCIP are likely to receive more support from the program when natural disasters occur. States in the Midwest, as well as

California, Texas, Florida, and Washington had the largest crop values insured by the FCIP in 2020 (Figure 2).

Figure 2. Crop Values Insured by the FCIP in 2020

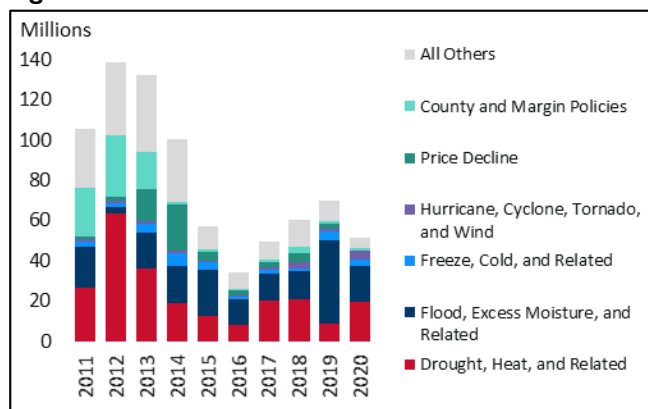


Source: CRS using data from USDA Risk Management Agency Summary of Business database, downloaded August 23, 2021.
Note: Excludes price and margin coverage for dairy and livestock.

FCIP Support for Natural Disasters

Between 2011 and 2020, droughts, floods, storms, and other related conditions accounted for the majority of FCIP acres with losses (Figure 3) and indemnities paid (Figure 4). Indemnities were paid for natural disaster events with federal disaster designations and declarations, for other adverse weather and growing conditions, and for other causes of loss. Widespread drought in 2012 and 2013 contributed to the relatively high levels of acres impacted by losses and total indemnities paid in those years. Spring flooding and overly wet conditions caused the majority of FCIP indemnities paid in 2015 and 2019.

Figure 3. FCIP Insured Acres with Losses

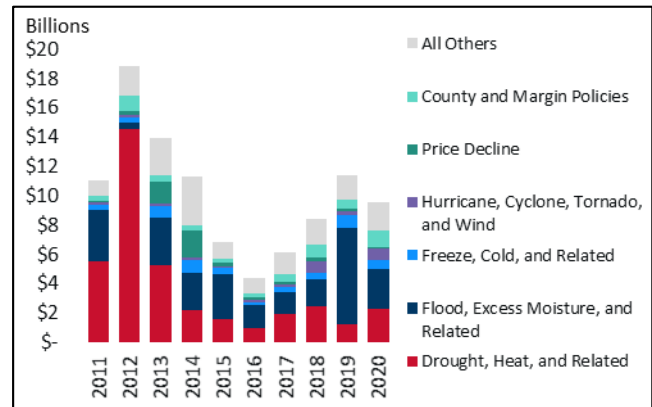


Source: CRS using data from USDA Risk Management Agency Cause of Loss data files, downloaded June 15, 2021.

Notes: Years are crop years. “Drought, Heat, and Related” includes losses due to drought, heat, failure of irrigation supply, excess sun, and hot wind. “Freeze, Cold, and Related” includes losses due to frost, freezing temperatures, cold winter, and cold wet weather. “Flood, Excess Moisture, and Related” includes losses due to excess moisture, excess precipitation, excess rain, and flood. “Hurricane, Cyclone, Tornado, and Wind” includes losses due to hurricane, tropical depression, wind, excess wind, cyclone, and tornado. “Price

Decline” includes losses due to declines in market prices. “County and Margin Policies” include losses due to declines in average county yields and revenues. “All Others” includes losses due to hail, fire, insect damage, disease, and other insurable perils.

Figure 4. FCIP Indemnities Paid by Loss Type



Source: CRS using data from USDA Risk Management Agency Cause of Loss data files, downloaded June 15, 2021.

Notes: Amounts are not adjusted for inflation. Years are crop years. Indemnities paid in 2019 exclude supplemental payments to prevented planted acres authorized under the Additional Supplemental Appropriations for Disaster Relief Act of 2019 (P.L. 116-20). See Figure 3 notes for explanations of each loss category.

Issues for Congress

Between 2011 and 2017, Congress did not provide supplemental assistance for agricultural production losses. FCIP indemnities provided the bulk of disaster support, including for the widespread drought conditions in 2012-2013 and flooding in 2015. Since 2018, Congress has appropriated ad hoc funds to compensate for certain losses related to natural disasters occurring in 2017-2019. Bills introduced in the 117th Congress would continue or expand this ad hoc assistance (e.g., H.R. 267 and S. 2599). USDA used the appropriated funds to augment support available from the FCIP and to compensate producers who had not purchased coverage through the program. Farmers who received these payments were required to purchase two years of coverage from the FCIP or through the Noninsured Crop Disaster Assistance Program. For an overview of this assistance, see CRS In Focus IF11539, *Wildfires and Hurricanes Indemnity Program (WHIP)*. Congress may consider the impact on farmers’ purchases of FCIP coverage of continuing or expanding ad hoc assistance.

Farmers planting insurable crops choose whether to purchase FCIP insurance and the coverage level. Data indicate that farmers purchase less FCIP coverage in areas where premiums are more expensive, which tends to occur in areas with relatively higher risks of crop losses. CAT coverage is the least expensive FCIP policy that farmers can purchase. The federal government pays 100% of the premium; farmers pay an administrative fee. If Congress considers enlarging the FCIP’s role in addressing natural disasters, one option could be to reconceive CAT coverage to better appeal to farmers in areas with higher risks of crop losses.

Stephanie Rosch, Analyst in Agricultural Policy

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.