FACT SHEET

THE CROP INSURANCE SECTOR

INDUSTRY OVERVIEW

Many farmers purchase crop insurance to protect against risks from environmental hazards, crop failures, and market volatility. Furthermore, crop insurance is often required by farm lenders – making access to crop insurance policies critical to farmers looking to access financing.

The U.S. Department of Agriculture's (USDA) Federal Crop Insurance Corporation (FCIC) operates the federal crop insurance subsidy program by authorizing private-sector insurance companies – called Authorized Insurance Providers (AIPs) – to underwrite and sell crop insurance policies. The general agreement between FCIC and AIPs is as follows:

FCIC PROVIDES AIPS WITH:

1. Protection against a portion of their losses on policies sold
2. An operating premium subsidy for their issued policies
3. Terms on which FCIC will pay a farmer's subsidy to AIPs

In return, AIPs agree to comply with the regulations promulgated by the USDA's **Risk Management Agency (RMA)** and to compete with each other for opportunities to underwrite policies for independent **crop insurance agencies**, which sell policies directly to farmers.

HISTORICAL CONTEXT

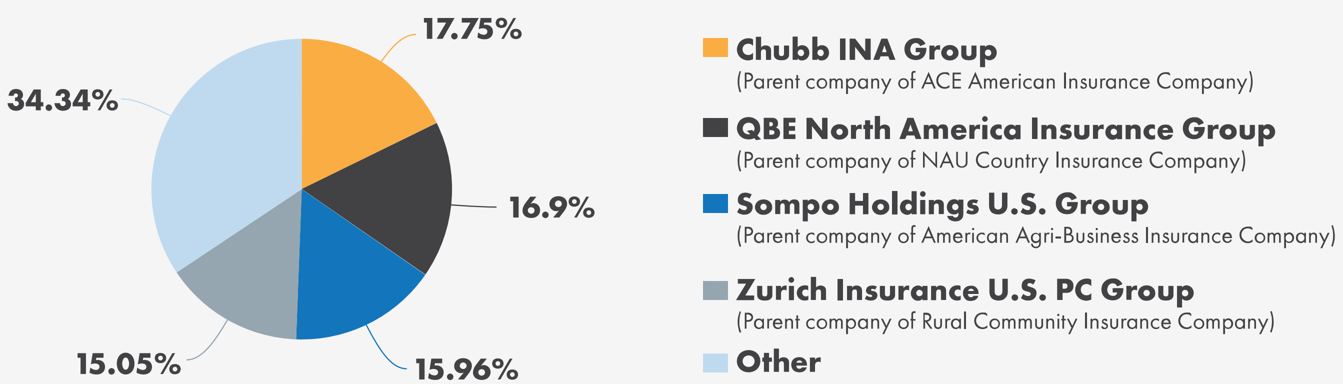
Whereas crop insurance was once dominated by smaller companies, crop insurance carriers and agencies have consolidated dramatically in recent years. A wave of mergers and acquisitions has left the sector with fewer, larger carriers and shifted crop insurance policy ownership towards large corporate customers, which accounted for 93% of premiums in 2016.

In the last decade, several large carriers sold their crop insurance divisions. These transactions and others consolidated the carrier segment and dramatically decreased the number of AIPs in the federal crop insurance program. Currently, USDA has listed only 12 AIPs on its website for the upcoming crop year.

As carriers consolidate upstream and farms consolidate downstream, crop insurance agencies have also followed suit. Mega-agencies like Silveus continue to consolidate and trade ownership, while the rest of the sector appears to be in terminal decline. While RMA's website lists approximately 12,000 agents, experts estimate that only two-thirds are likely to be active, and relatively few beginning agents are entering the industry.

U.S. Crop Insurance Concentration

MULTIPLE PERIL CROP INSURERS CR4: 65.66%



DIGGING DEEPER

As a result of these developments among carriers and agents, the crop insurance industry is leaving small and midsize farms behind — focusing almost exclusively on subsidy-eligible grain operations. As of 2019, 94% of federally subsidized policies issued by AIPs were for grain crops, and around half of the farms insured by AIPs were larger than 500 acres. In contrast, less than 15% of insured farms had fewer than 100 acres, and only 4% of policies were for specialty crops.

AIPs are incentivized to target established agribusinesses over smaller, unconventional farms. Large, monoculture policies require less resources to write, equate to larger premium volumes, and are insulated from market and environmental risks by federal commodity subsidy programs. In comparison, underwriting crop insurance policies for smaller, more diversified farms requires more resources, results in smaller premium volumes, and offers limited (if any) access to federal subsidy programs.

These incentives matter because, while AIPs cannot modify the policies or prices established by RMA, they have wide discretion over the structure of agent compensation and can encourage them to sell preferred types of policies.

RMA has taken important steps to support smaller, more diversified farms by ensuring that they have better access to crop insurance policies. AIP incentives, however, continue to be a challenge. As RMA introduces new policies and streamlines existing policies, consolidation in the insurance sector has given the handful of remaining AIPs undue influence over access to these policies.

WHAT THIS MEANS FOR FARMERS AND THEIR COMMUNITIES

In many sectors, we see how consolidation in related industries drives consolidation in corresponding industries. In crop insurance, this impact is particularly pernicious. As AIPs have consolidated and adopted policies that incentivize farmland consolidation and monocropping, these policies have dramatically impacted what farmers grow, who grows it, how they grow it, and by extension, what we all eat.

With a plethora of coverage options, which are additionally bolstered by federal subsidy programs, planting large acreages of commodity crops, such as corn and soybeans, has become far less risky than other types of farming. In contrast, smaller scale, more diverse, regenerative/organic, and fruit and vegetable growers have more barriers, fewer options, and overall much more diminished access to risk management tools. Farmers of color, who are more likely to operate these types of operations, are disproportionately impacted by these access issues. Not surprisingly, this asymmetric access is reflected in planted acreage. For example, while harvested soybean acreage increased by an average of 886,000 acres each year between 2018 and 2022, harvested vegetable acreage continued its long term downward trend, falling an additional 20%.

As American farmers continue to shift more of their production towards feed grains, the U.S. grows increasingly reliant on other countries to produce the food Americans eat. Until 2019, the U.S. had consistently reported an agricultural trade surplus, but over the past five years, this balance has flipped, with the U.S. reporting a trade deficit three out of the past five years and forecasting a record $32 billion deficit in 2024.

This puts the U.S. in a precarious situation, threatening our national security. The U.S. is now doubly dependent on other countries to purchase a significant proportion of the grain crops grown by U.S. farmers, while also increasingly reliant on other countries to grow food crops to feed Americans.