Materials Prepared for

Federation of Southern Cooperatives
Epes, Alabama
September 11, 2009

Group Risk Crop Insurance

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Group Risk Crop Insurance

Crop loss protection under the individual yield and revenue crop insurance programs is based on the individual producer's historical yield and actual disaster yield.

Congress has also authorized FCIC to experiment with forms of crop insurance based on group statistics. Group risk-based crop insurance allows producers to insure against **widespread losses** at a **relatively low cost**. In general, group risk policies require **less paperwork** and cost less than other forms of crop insurance.

Group risk insurance is intended primarily for those producers whose yields tend to follow the trend of county average yields. For group risk insurance to be an attractive option, the individual producer's yield or income levels do not need to match the county averages, but they should move in the same direction. That is, when the producer's yield or income falls, the county average falls too and in roughly the same proportion. Group risk insurance could also be attractive to a producer looking to obtain low-cost coverage for a new crop while the producer establishes yields and production records that can be used to obtain individual insurance in later years.

I. Significant Differences Between Group Risk and Individual Crop Insurance

A. Coverage Based Solely on County-Wide Data

Group risk policies are based on county-wide historical yields and county-wide disaster yields. Group risk yield insurance is based entirely on county-wide yield data,[1] while group risk revenue insurance uses the county-wide yield data together with an established crop price to calculate revenue.[2]

Because the individual producer's production is irrelevant to group risk coverage, the group risk insurance policies generally do not provide payments for prevented planting or late planting, or any required replanting.

B. The "Acknowledgment of Differences"

Because group risk coverage is so different from traditional multi-peril insurance, producers who buy group risk coverage are required to sign an "Acknowledgment of Differences."[3] This document represents the producer's acknowledgment that he or she understands how the terms of the group risk insurance are different from traditional crop insurance.

Among the important differences noted in the acknowledgment are the following:

1. The producer might not receive a payment under the group risk policy even if his or her individual farm has a low yield.
2. The producer might receive a payment under the group risk policy even if his or her individual farm does not have any loss of production.
3. The producer cannot purchase both a group risk policy and a traditional multi-peril crop insurance policy on the same crop in the same county.

C. Individual Yield and Production Records Not Required

Group risk insurance has greatly simplified record requirements for producers. Other than the information required when applying for group risk coverage, the only information a producer must provide is an acreage report by the acreage reporting date. Producers do not have to provide production history or evidence of loss.

Nonetheless, RMA encourages producers to maintain individual crop yield and acreage history in case they want to insure the same crop in a later year under an

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1 Group Risk Plan Common Policy, Basic Provisions, "1. Definitions, 'Trigger yield'" (Policy No. 09-102).

2 Group Risk Income Protection Coverage Insurance Policy, Basic Provisions, "1. Definitions, 'Trigger revenue'") (Policy No. 05-GRIP-BASIC).

3 7 C.F.R. § 407.8(c).

individual insurance policy.[4] If the producer switches to a yield-based policy in a future year, he or she will still be responsible for certifying past production. If a producer switching from group risk insurance to individual insurance does not certify acreage and production for at least the most recent year in which the crop was grown, the approved APH yield will be limited to 65% of the applicable county T-yield.

D. No Claims Adjustment Process

There is no claims adjustment process under the group risk insurance programs, and producers are not required to make a loss claim to receive an indemnity. The calculations are made by RMA based on county information that it collects.

E. Indemnities Are Paid Out the Following Spring

Because group risk coverage is based on county averages, payments are not issued until the following year, after the averages have been calculated.[5]

II. Group Risk Insurance Plans

Two basic group risk-based insurance plans are currently available in some areas. One plan is designed to protect against yield losses only, similar to traditional multi-peril yield crop insurance. The other plan is modeled after the revenue-based insurance policies and is designed to protect against yield or price losses.

A. Group Risk Plan (GRP) Coverage

The Group Risk Plan (GRP) is a form of multi-peril crop insurance that provides coverage in case of widespread crop yield losses due to natural disaster.

1. Coverage Based on County-Wide Yields

In a GRP policy, the coverage is based entirely on county expected yields, not individual farm yields. GRP pays out only when the average actual yield in the

4 RMA Informational Memorandum, "Reporting Acreage and Production for Years Insured under the Group Risk Protection (GRP) or Group Risk Income Protection (GRIP) Plan of Insurance" (June 19, 2006).

5 Group Risk Plan Common Policy, Basic Provisions (cover sheet) (Policy No. 09-102).

entire county drops below the expected county yield for the insured crop, regardless of how the individual producer's crop was affected.[6]

2. *GRP Coverage*

Producers must choose one GRP coverage level for each crop and county combination. GRP pays when the actual average county yield for the crop falls below the elected level of the expected county yield. The producer may choose coverage under GRP of 70, 75, 80, 85, or 90% of expected county yield.[7]

The producer also chooses a per-acre protection level, which is comparable to a price protection election in individual "additional coverage" yield insurance.[8]

3. *The GRP Agreement*

A GRP policy will include the producer's accepted application, the Group Risk Plan of Insurance Basic Provisions, the Crop Provisions, the Special Provisions, the Actuarial Table for the crop, and any amendments, endorsements, or options.[9]

4. *GRP Availability*

After beginning in 1993 as a pilot program available only for soybeans in a few areas, GRP was repeatedly expanded to cover more crops and more counties. In June 1999, FCIC published final regulations making GRP a permanent risk management tool available to producers nationwide beginning with the 2000 crop year.[10] For the 2010 crop year, GRP is available for corn, soybeans, cotton, forage, grain sorghum, peanuts, wheat, and barley.[11]

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[6] Group Risk Plan Common Policy, Basic Provisions, "1. Definitions, 'Trigger yield'" (Policy No. 09-102).

[7] Group Risk Plan Common Policy, Basic Provisions, "5. Coverage Levels" (Policy No. 09-102).

[8] Group Risk Plan Common Policy, Basic Provisions, "4. Policy Protection" (Policy No. 09-102).

[9] Group Risk Plan Common Policy, Basic Provisions (cover sheet) (Policy No. 09-102).

[10] 64 Fed. Reg. 30,214 (1999) (codified at 7 C.F.R. pt. 407).

[11] 7 C.F.R. §§ 407.10 to 407.17.

B. Group Risk Income Protection (GRIP) Coverage

The Group Risk Income Protection (GRIP) plan is a form of revenue-based crop insurance that provides coverage against widespread losses in income due to low crop yields and/or low crop prices.

1. *Coverage Based on County-Wide Revenue*

In a GRIP policy, the revenue guarantee is based on the expected and actual revenue for the county, not the individual producer.[12] GRIP policies pay out only when the average per-acre revenue for the entire county drops below the expected county revenue for the insured crop, regardless of how the individual producer's income was affected.[13]

2. *GRIP Coverage*

GRIP pays when the average per acre revenue for the county for the year falls below the expected per acre revenue in the county for the crop. The producer may choose coverage under GRIP of 70, 75, 80, 85, or 90% of expected county revenue.[14]

The producer also chooses a per-acre protection level from 60—100%, which is comparable to a price protection election in individual "additional coverage" revenue insurance.[15]

3. *The GRIP Agreement*

A GRIP policy will include the producer's accepted application, the Group Risk Income Protection Common Policy Basic Provisions, the Crop Provisions, the Special Provisions, the actuarial documents for the crop, any amendments, endorsements, or options, and applicable regulations.[16]

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[12] Group Risk Income Protection Coverage Insurance Policy, Basic Provisions, "1. Definitions, 'County revenue,' 'Expected county revenue'") (Policy No. 05-GRIP-BASIC).

[13] Group Risk Income Protection Coverage Insurance Policy, Basic Provisions, "1. Definitions, 'Trigger revenue'" (Policy No. 05-GRIP-BASIC).

[14] Group Risk Income Protection Coverage Insurance Policy, Basic Provisions, "5. Coverage Levels" (Policy No. 05-GRIP-BASIC).

[15] Group Risk Income Protection Coverage Insurance Policy, Basic Provisions, "4. Policy Protection" (Policy No. 05-GRIP-BASIC).

[16] Group Risk Income Protection Coverage Insurance Policy, Basic Provisions (cover sheet) (Policy No. 05-GRIP-BASIC).

4. GRIP Availability

For the 2010 crop year, GRIP is available for corn, cotton, grain sorghum, wheat, and soybeans.