OBAMA-BIDEN TRANSITION PROJECT

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Underutilization of Crop Insurance Costs Farm Communities Millions

A comparison study performed by Farmers First Services, Inc. in the winter of 2008 to gauge how Delaware farmers have responded to Risk Management Education (RME) efforts since 2001 revealed some interesting and, in some cases, challenging data. Since 2001, RME efforts conducted through partnership grants between the USDA Risk Management Agency (RMA) ands partners like the Delaware Department of Agriculture (DDA) have helped enhance producer awareness of their crop insurance options. This has resulted in producers obtaining higher, more relevant levels of coverage, mitigating more risk, and receiving much more in indemnity payments when crop disaster has struck.

The study revealed, however that many states and/or crop industries need similar partnership grant availability to address a lack of producer awareness.

For example:

- Nearly **23 %** of **North Carolina** crop insurance policies obtained for **soybeans** in 2007 were at the **catastrophic (CAT) level**, which provides coverage of just 50% of approved yield at 55% of the established price. This is effectively 27.5% coverage, a minimal, if not dismal level.

  Had CAT policies represented 10% of soybean policies with the remaining percentage moving up to the 70% level, **North Carolina soybean producers would have received approximately *$8.1 million* in additional indemnities**, with loss ratios between the 1.17 and 1.95 range as experienced in the drought conditions of 2007.

- Approximately **19%** of **2007 South Carolina cotton** policies were at the CAT level.

  Had CAT policies represented 10% of soybean policies with the remaining percentage moving up to the 70% level, **South Carolina cotton producers would have received approximately *$1.6 million* in additional indemnities**, with loss ratios between the 1.8 and 2.4 range as experienced in the drought conditions of 2007.

- **In perhaps the most dramatic finding of the study, approximately 58% of 2007 Tennessee cotton policies were at the CAT level!**

  Had CAT policies represented 10% of Tennessee cotton policies with the remaining percentage moving up to the 70% level, **Tennessee cotton producers would have received approximately *$12 million* in additional indemnities**, with loss ratios between the 1.6 and 2.1 range as experienced in the drought conditions of 2007.

These three examples alone indicate that over $21 million dollars in crop losses were not indemnified, in part, because producers were underinsured!

The success of the DDA/RMA partnership leads to the conclusion that similar partnerships in other regions/states, perhaps targeted to specific commodities, should show similar results.

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