

## Risk Management

# Crop Insurance Terms

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The crop insurance industry is providing more and more risk management tools to help producers deal with the ever-increasing risks they face. As the number of alternative tools increases, so does their complexity. This publication defines many of the common terms producers should be familiar with when making crop insurance decisions.

## Crop Insurance Documents

**Actuarial documents.** The material for the crop year that is available for public inspection in the insurance agent's office and is published on RMA's web site (<http://www.rma.usda.gov/>) or a successor web site. These documents show available coverage levels, information needed to determine amounts of insurance, premium rates, premium adjustment percentages, practices, particular types or varieties of the insurable crop, insurable acreage, and other information about crop insurance in the county.

**Application.** The form that must be completed by the insured and accepted by the insurance company before insurance coverage will commence. This form must be completed and filed in the insurance agent's office not later than the sales closing date of the initial insurance year for each crop for which insurance coverage is requested. If insurance coverage is cancelled or terminated for any reason, including but not limited to indebtedness, suspension, debarment, disqualification, cancellation by

insured or insurer, or violation of the controlled substance provisions of the Food Security Act of 1985, a new application must be filed for the crop. Insurance coverage will not be provided if the insured is ineligible under the contract or under any federal statute or regulation.

**Catastrophic Risk Protection Endorsement.** The part of the crop insurance policy that contains provisions specific to catastrophic risk protection.

**Crop Provisions.** The part of the policy that contains the specific provisions of insurance for each insured crop.

**Insured crop.** The crop in the county for which coverage is available under the policy as shown on the application accepted by the insurance company.

**Policy.** The agreement between the insured and the insurer to insure an agricultural commodity. It consists of the accepted application, the Basic Provisions, the Crop Provisions, the Special Provisions, other applicable endorsements or options, the actuarial documents for the insured agricultural commodity, and the applicable regulations published in the Federal Register. Insurance for each agricultural commodity in each county will constitute a separate policy.

**Special Provisions.** The part of the policy that contains specific provisions of insurance for each insured crop that may vary by geographic area.



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**Summary of coverage.** The insurance company's statement to the insured, based upon the acreage report, specifying the insured crop and the guarantee or amount of insurance coverage provided, by unit.

**Written agreement.** A document that alters designated terms of a policy as authorized under the Basic Provisions, the Crop Provisions, or the Special Provisions for the insured crop.

## Coverage Levels and Price Elections

**Actual Production History (APH).** A process used to determine production guarantees.

**Additional coverage.** A level of coverage greater than catastrophic risk protection.

**Administrative fee.** An amount the insured must pay for catastrophic risk protection and additional coverage for each crop year and the Catastrophic Risk Protection Endorsement.

**Approved yield.** The actual production history (APH) yield, calculated and approved by the verifier, which is used to determine the production guarantee. The approved yield is calculated by summing the yearly actual, assigned, adjusted or unadjusted transitional yields and dividing the sum by the number of yields in the database, which will always contain at least four and as many as ten consecutive crop years of actual or assigned yields. The approved yield may have yield adjustments elected under the Basic Provisions or other limitations according to FCIC-approved procedures applied when calculating the approved yield.

**Coverage.** The insurance provided by a policy against loss of production or value, by unit, as shown on the summary of coverage.

**Catastrophic risk protection.** The minimum level of coverage offered by the FCIC that is required to qualify for certain other USDA program benefits unless the insured waives eligibility for emergency crop loss assistance in connection with the crop.

**Deductible.** The amount of loss incurred before insurance coverage begins, determined by subtracting the coverage level percentage the insured chose from 100 percent. For example, if

the insured elected a 65 percent coverage level, the deductible would be 35 percent ( $100\% - 65\% = 35\%$ ).

**Economic significance.** The value of a crop, or of a type or variety of a crop (if the applicable crop policy allows the insured the option to separately insure individual crop types or varieties), equal to 10 percent or more of the total value of the share of all crops grown in the county the previous crop year, or that the insured expects to grow in the current crop year. However, an amount is not considered economically significant if the expected liability under the Catastrophic Risk Protection Endorsement is equal to or less than the administrative fee required for the crop or the crop type or variety.

**Price election.** The amount contained in the Special Provisions, or an addendum thereto, that is the value per pound, bushel, ton, carton or other applicable unit of measure for the purposes of determining premium and indemnity under the policy.

**Production guarantee (per acre).** The number of pounds, bushels, tons, cartons or other applicable units of measure determined by multiplying the approved yield per acre by the coverage level percentage the insured elects.

## Farming Terms Used in Crop Insurance

**Abandon.** Failure to continue to care for the crop, providing care so insignificant as to provide no benefit to the crop, or failure to harvest in a timely manner, unless an insured cause of loss prevents the insured from properly caring for or harvesting the crop or damages it to the extent that most producers of the crop on acreage with similar characteristics in the area would not normally further care for or harvest it.

**Actual yield.** The yield per acre for a crop year, calculated from the production records or claims for indemnities. The actual yield is determined by dividing total production (which includes harvested and appraised production) by planted acres.

**Agricultural commodity.** Any crop or other commodity produced, whether or not it is insurable.

**Agricultural experts.** Persons who are employed by the Cooperative State Research, Education and Extension Service or the agricultural departments of universities, or other persons approved by the FCIC, whose research or occupation is related to the specific crop or practice for which such expertise is sought.

**Annual crop.** An agricultural commodity that normally must be planted each year.

**Cover crop.** A crop generally recognized by agricultural experts as agronomically sound for the area for erosion control or other purposes related to soil conservation or improvement. A cover crop may be considered to be a second crop.

**Crop year.** The period within which the insured crop is normally grown, whether or not it is actually grown, and designated by the calendar year in which the insured crop is normally harvested, unless otherwise specified in the Crop Provisions.

**Damage.** Injury, deterioration or loss of production of the insured crop from insured or uninsured causes.

**Double crop.** Producing two or more crops for harvest on the same acreage in the same crop year.

**First insured crop.** With respect to a single crop year and any specific crop acreage, the first instance that an agricultural commodity is planted for harvest or prevented from being planted and is insured. For example, if winter wheat that is not insured is planted on acreage that is later planted to soybeans that are insured, the first insured crop would be soybeans. If the winter wheat was insured, it would be the first insured crop.

**Generally recognized.** When agricultural experts or the organic agricultural industry, as applicable, are aware of the production method or practice and there is no genuine dispute regarding whether the production method or practice allows the crop to make normal progress toward maturity and produce at least the yield used to determine the production guarantee or amount of insurance.

**Good farming practices.** The production methods used to produce the insured crop and

allow it to make normal progress toward maturity and produce at least the yield used to determine the production guarantee or amount of insurance, including any adjustments for late-planted acreage, which are: 1) for conventional or sustainable farming practices, those generally recognized by agricultural experts for the area; or 2) for organic farming practices, those generally recognized by the organic agricultural industry for the area or contained in the organic plan. Either the insured or the insurer may contact the FCIC to determine whether or not production methods will be considered "good farming practices."

**Interplanted.** Acreage on which two or more crops are planted in a manner that does not permit separate agronomic maintenance or harvest of the insured crop.

**Irrigated practice.** A method of producing a crop by which water is artificially applied during the growing season by appropriate systems and at the proper times, with the intention of providing the quantity of water needed to produce at least the yield used to establish the irrigated production guarantee or the amount for which the irrigated acreage planted to the insured crop is insured.

**Late planted.** Acreage initially planted to the insured crop after the final planting date.

**Negligence.** The failure to use such care as a reasonably prudent and careful person would use under similar circumstances.

**Perennial crop.** A plant, bush, tree or vine crop that has a life span of more than 1 year.

**Planted acreage.** Land in which seed, plants or trees have been placed, appropriate for the insured crop and planting method, at the correct depth, into a seedbed that has been properly prepared for the planting method and production practice.

**Practical to replant.** The insurance company's determination, after loss or damage to the insured crop, based on all factors (including, but not limited to, moisture availability, marketing window, condition of the field, and time to crop maturity), that replanting the insured crop will allow the crop to attain maturity before the calendar date for the end of the insurance

period. The determination that it is practical to replant may be made regardless of the availability of seed or plants or the input costs necessary to produce the insured crop, such as those that would be incurred for seed or plants, irrigation water, etc.

**Prevented planting.** Inability to plant the insured crop with proper equipment by the final planting date designated in the Special Provisions for the insured crop in the county. The insured may also be eligible for a prevented planting payment if the insured failed to plant the insured crop with the proper equipment within the late planting period. The insured must have been prevented from planting the insured crop by an insured cause of loss that is general in the surrounding area and that prevents other producers from planting acreage with similar characteristics.

**Replanted crop.** The same agricultural commodity replanted on the same acreage as the first insured crop for harvest in the same crop year, if the replanting is specifically made optional by the policy and the insured elects to replant the crop and insure it under the policy covering the first insured crop, or if replanting is required by the policy.

**Replanting.** Performing the cultural practices necessary to prepare the land to replace the seed or plants of the damaged or destroyed insured crop and then replacing the seed or plants of the same crop in the same insured acreage. The same crop does not necessarily mean the same type or variety of the crop unless different types or varieties constitute separate crops or it is otherwise specified in the policy.

**Representative sample.** Portions of the insured crop that must remain in the field for examination and review by the insurance company's loss adjuster when making a crop appraisal, as specified in the Crop Provisions. In certain instances, the insurance company may allow the insured to harvest the crop and require only that samples of the crop residue be left in the field.

**Second crop.** With respect to a single crop year, the next occurrence of planting any agricultural commodity for harvest following a first insured crop on the same acreage. The second

crop may be the same agricultural commodity as the first insured crop, or a different commodity, except that the term does not include a replanted crop. A cover crop planted after a first insured crop for the purpose of haying, grazing or otherwise harvesting in any manner, or that is hayed, grazed or otherwise harvested during the crop year, is considered to be a second crop. A cover crop that is covered by FSA's noninsured crop disaster assistance program (NAP) or receives other USDA benefits associated with forage crops will be considered as planted for the purpose of haying, grazing or otherwise harvesting. A crop meeting the conditions stated herein will be considered a second crop whether or not it is insured. Notwithstanding the references to haying and grazing as harvesting in these Basic Provisions, for the purpose of determining the end of the insurance period, harvest of the crop will be as defined in the applicable Crop Provisions.

**Sustainable farming practice.** A system or process for producing an agricultural commodity, excluding organic farming practices, that is necessary to produce the crop and is generally recognized by agricultural experts in the area to conserve or enhance natural resources and the environment.

**Timely planted.** Planted on or before the final planting date designated in the Special Provisions for the insured crop in the county.

## ***Organic Production***

**Buffer zone.** A parcel of land, as designated in an organic plan, that separates agricultural commodities grown under organic practices from agricultural commodities grown under nonorganic practices. It is used to minimize the possibility of unintended contact by the organic crop with prohibited substances or organisms.

**Certified organic acreage.** Acreage in the certified organic farming operation that has been certified by a certifying agent as conforming to USDA organic standards.

**Certifying agent.** A private or governmental entity accredited by the U.S. Secretary of Agriculture to certify a production, processing or handling operation as organic.

**Conventional farming practice.** A system or process for producing an agricultural commodity, excluding organic farming practices, that is necessary to produce the crop. A conventional farming practice may be, but is not required to be, generally recognized by agricultural experts in the area as a means of conserving natural resources or enhancing the environment.

**Organic agricultural industry.** Persons who are employed by the following organizations: Appropriate Technology Transfer for Rural Areas; Sustainable Agriculture Research and Education; the Cooperative State Research, Education and Extension Service; the agricultural departments of universities; or other persons approved by the FCIC, whose research or occupation is related to the specific organic crop or practice for which such expertise is sought.

**Organic farming practice.** A system of plant production practices approved by a certifying agent.

**Organic plan.** A written plan, in accordance with the National Organic Program, that describes the organic farming practices that the insured and a certifying agent agree upon annually or at such other times as prescribed by the certifying agent.

**Organic standards.** Standards in accordance with the Organic Foods Production Act of 1990.

**Transitional acreage.** Acreage on which organic farming practices are being followed that does not yet qualify to be designated as organic acreage.

## Reports

**Acreage report.** A report required by the Basic Provisions that contains, in addition to other information, the report of the insured's share of all acreage of an insured crop in the county, whether insurable or not insurable.

**Claim for indemnity.** A claim made on the insurance company's form by the insured for damage or loss to an insured crop and submitted to the insurance company not later than 60 days after the end of the insurance period.

**Consent.** Approval in writing by the insurance company for the insured to take a specific action.

**Insurable loss.** Damage for which coverage is provided under the terms of a policy, and for which the insured accepts an indemnity payment.

**Production report.** A written record showing the insured's annual production. The insurance company uses it to determine the insured's yield for insurance purposes. The report contains yield information for previous years, including planted acreage and harvested production. This report must be supported by written, verifiable records from a warehouseman or buyer of the insured crop, by the measurement of farm-stored production, or by other records of production approved by the insurance company on an individual case basis.

## Units

**Basic unit.** All insurable acreage of the insured crop in the county on the date coverage begins for the crop year:

1. In which the insured has a 100 percent crop share; or
2. Which is owned by one person and operated by another person on a share basis. (Example: If, in addition to the land the insured owns, the insured rents land from five landlords, three on a crop share basis and two on a cash basis, the insured would be entitled to four units—one for each crop share lease and one that combines the two cash leases and the land the insured owns.)

Land that would otherwise be one unit may, in certain instances, be divided according to guidelines contained in the Basic Provisions and in the applicable Crop Provisions.

**Optional unit.** For an additional premium, growers may subdivide their basic units by practice, section or section equivalents.

**Enterprise unit.** All insurable acreage of the insured crop in the county in which the insured has a share on the date coverage begins for the crop year. To qualify, an enterprise unit must contain all of the insurable acreage of the same insured crop in:

1. One or more basic units that are located in two or more separate sections, section equivalents, FSA farm serial numbers, or units established by written agreement, with at least some planted acreage in two or more separate sections, section equivalents, FSA farm serial numbers, or two or more separate units as established by written agreement; or
2. Two or more optional units established by separate sections, section equivalents, FSA farm serial numbers, or as established by written agreement, with at least two optional units containing some planted acreage.

**Whole farm unit.** All insurable acreage of two or more insured crops planted in the county in which the insured has a share on the date coverage begins for each crop for the crop year. All crops for which the whole farm unit structure is available must be included in the whole farm unit. At least two of the insured crops must each constitute at least 10 percent of the total liability of all insured crops in the whole farm unit, and all crops in the unit must be insured under the same plan of insurance and with the same insurance provider.

## Other Terms

**Area.** Land surrounding the insured acreage with geographic characteristics, topography, soil types, and climatic conditions similar to the insured acreage.

**County.** Any county, parish or other political subdivision of a state shown on the insured's accepted application, including acreage in a field that extends into an adjoining county if the county boundary is not readily discernible.

**Field.** All acreage of tillable land within a natural or artificial boundary (e.g., roads, waterways, fences, etc.). Using different planting patterns or planting different crops does not create separate fields.

**FSA farm serial number.** The number assigned to the farm by the local Farm Service Agency (FSA) office.

**Noncontiguous.** Acreage of an insured crop that is separated from other acreage of the same

insured crop by land that is neither owned by the insured nor rented by the insured for cash or a crop share. However, acreage separated by only a public or private right-of-way, waterway or irrigation canal will be considered as contiguous.

**Section.** (for the purposes of unit structure) A unit of measure under a rectangular survey system describing a tract of land usually 1 mile square and usually containing approximately 640 acres.

**State.** The state shown on the insured's accepted application.

## Parties to Crop Insurance Contract

**Assignment of indemnity.** A transfer of policy rights, made on the insurance company's form, that is effective when approved by the insurance company. It is the arrangement whereby the insured assigns his right to an indemnity payment to any party of his choice for the crop year.

**Person.** An individual, partnership, association, corporation, estate, trust or other legal entity, and, wherever applicable, a state or a political subdivision or agency of a state. "Person" does not include the United States government or any agency thereof.

**Insured.** The named person as shown on the application accepted by the insurance company. This term does not extend to any other person having a share or interest in the crop (for example, a partnership, landlord or any other person) unless specifically indicated on the accepted application.

**Limited resource farmer.** A person with:

1. Direct or indirect gross farm sales of not more than \$100,000.00 in each of the previous 2 years (to be increased starting in fiscal year 2004 to adjust for inflation using the Prices Paid by Farmer Index as compiled by the National Agricultural Statistical Service); and
2. A total household income at or below the national poverty level for a family of four, or less than 50 percent of the

county median household income in each of the previous 2 years (to be determined annually using Commerce Department data).

**Share.** The insured's percentage of interest in the insured crop as an owner, operator or tenant at the time insurance attaches. However, for the purpose of determining the amount of indemnity, the insured's share will not exceed his share at the earlier of the time of loss or the beginning of harvest.

**Tenant.** A person who rents land from another person for a share of the crop or a share of the proceeds of the crop.

**Substantial beneficial interest.** An interest of at least 10 percent in the insured crop.

## ***Dates and their Definitions***

**Acreage reporting date.** The date contained in the Special Provisions, or as provided in the Basic Provisions, by which the insured is required to submit the acreage report.

**Cancellation date.** The calendar date specified in the Crop Provisions on which coverage for the crop will automatically renew unless canceled in writing by either the insured or the insurance company or terminated in accordance with the policy terms.

**Contract change date.** The calendar date by which changes to the policy, if any, will be made available in accordance with the Basic Provisions.

**Coverage begins date.** The calendar date insurance begins on the insured crop, as contained in the Crop Provisions, or the date planting begins on the unit (the Basic Provisions has specific provisions relating to prevented planting).

**Days.** Calendar days.

**Delinquent debt.** Any account in which the administrative fee, premiums and interest on those amounts is not paid by the termination date specified in the Crop Provisions.

**Earliest planting date.** The initial planting date contained in the Special Provisions, which is the earliest date the insured may plant an insured agricultural commodity and qualify for a replanting payment if such payments are authorized by the Crop Provisions.

**End of insurance period date.** The date upon which the crop insurance coverage ceases for the crop year.

**Final planting date.** The date contained in the Special Provisions for the insured crop by which the crop must initially be planted in order to be insured for the full production guarantee or amount of insurance per acre.

**Late planting period.** The period that begins the day after the final planting date for the insured crop and ends 25 days after the final planting date, unless otherwise specified in the Crop Provisions or Special Provisions.

**Premium billing date.** The earliest date upon which the insured will be billed for insurance coverage based on the acreage report. The premium billing date is in the Special Provisions.

**Sales closing date.** A date contained in the Special Provisions by which an application must be filed. Also, the last date the insured may change the crop insurance coverage for a crop year.

**Termination date.** The calendar date, contained in the Crop Provisions, upon which insurance ceases to be in effect because of nonpayment of any amount (including the premium) due the insurance company under the policy.

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