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## CROP INSURANCE MYTH VS FACT: MARKET DISTORTIONS

MYTH: Crop insurance is market distorting and discourages farmers from following market signals.

**FACT: Markets do not respond to crop insurance; crop insurance responds to markets. Crop insurance uses current-season market prices to determine coverage, losses, indemnities and premiums.**

Crop insurance policies do not use an artificial price to determine coverage, losses, indemnities, or premiums. As designed today, crop insurance uses real-time tools such as various commodity exchange prices to determine coverage, losses, indemnities, and premiums. In other words, markets do not respond to crop insurance; crop insurance responds to markets.

- For example, if corn prices are comparatively higher than soybean prices, crop insurance will reflect that market dynamic. Crop insurance is a reflection of the market and is available for all crops.
- Crop insurance is available to all types of farms in all parts of the country, so the availability of crop insurance for one commodity and not another is also not a determining factor when farmers make planting decisions.
  - More than 130 commodities are covered with individual crop policies, from corn to cantaloupe to cotton. There are more than 127,000 crop and county combinations for policies across the United States, providing multiple options to farmers.
  - For commodities that do not have a commodity-specific policy available in a given county, the 2014 Farm Bill created a Whole Farm Revenue Policy that allows all farmers of all commodities to have a crop insurance option. Subsequent bills have included provisions to improve functionality of that program based on farmer feedback.
- Crop insurance premium discounts are standardized across commodities, so crop insurance does not artificially incentivize the production of one commodity over another commodity.
- Per the 2014 Farm Bill, new crop insurance products proposed for sale must go through a consultation process specifically to assess if there would be a detrimental impact on the marketing and production of a commodity if a new policy is approved.
  - The process for approving new crop insurance policies requires approval by the Federal Crop Insurance Corporation Board, which includes the Chief Economist at the USDA, whose mission is to advise on the economic implication of agricultural policies and programs.
- New technologies, data mining algorithms, and extensive training and education programs for agents and adjusters are all used to ensure crop insurance is being used properly as a risk management tool and to identify fraudulent claims. These rigorous checks on the program also help to ensure that farmers are not farming for the program itself but for the market.