Risk Management

The USDA Risk Management Agency (RMA) that oversees crop insurance states that “losses to soybean production due to soybean rust disease is an insurable cause of loss provided the insured can verify that the cause was natural and available control measures were properly applied….The RMA will be…vigilant to monitor when outbreaks are detected in an area to determine if an insured could have applied recommended fungicides in a timely manner and did not.” It will be imperative for “producers to keep informed of soybean rust outbreaks in their area and take recommended measures to control or prevent the disease impact if an outbreak is anticipated or already in the area.”

There are two major categories of crop insurance products for soybeans in Missouri. Yield insurance contains the familiar catastrophic plan, the actual production history plan and the group risk plan. All pay indemnities when yields are lower than a level chosen by the farmer purchasing the insurance. Revenue insurance contains crop revenue coverage and revenue assurance. These plans are more complex with indemnities being paid when either revenue or yields fall below a level chosen by the purchasing farmer.

Seventy-five percent of soybean acres in Missouri were insured in 2003. For the last five years Missouri farmers have received more than $2 from insurance indemnities for every $1 paid in premiums (Note: 2004 crop insurance data are not yet published but I do not think it will pay as well, given the yields and prices seen in 2004).

With so many farmers purchasing and benefiting from crop insurance, considering the impact of Asian soybean rust on their crop insurance decision seems wise. Should the policy purchased this year be the same as last or does the added risk of soybean rust losses argue for a change? The answer lies, in part, on what you expect the impact of soybean rust to be in your area and in the nation.

Historically the catastrophic plan pays poorly. Farmers who purchase this plan rarely receive an indemnity because the yield must fall below 50 percent of their 10 year average. If you believe, should soybean rust hit, it will devastate your crop, catastrophic insurance may be worthwhile. Be warned the RMA is expecting farmers to take recommended measures to protect their crop from soybean rust.

If you believe that soybean rust, should it hit, will impact your entire county, Group Risk Plan (GRP) may be useful. GRP is not often purchased and pays only when the county yield is below a certain level. GRP is a good plan for those whose farm yields closely follow county yields. It is less expensive than other forms of insurance but rarely pays.

Most farmers purchase revenue assurance (RA) rather than crop revenue coverage (CRC). CRC differs from RA in that CRC purchases benefit from higher harvest time prices should prices increase throughout the growing season. If you think that soybean rust will significantly reduce US soybean production increasing soybean prices, CRC would allow you to benefit from that price increase.

As always, crop insurance decisions should be made in consultation with your financial advisor. The major impact of soybean rust may be that it causes you to rethink your crop insurance choices rather than just take the same level of coverage that you have had for the last several years.

Any crop insurance decision for soybeans grown in 2005 must be made by March 15, 2005.

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Statements the risk management agency has made:
Losses to soybean production due to soybean rust disease is an insurable cause of loss provided the insured can verify that the cause was natural and available control measures were properly applied.

It will be critical for RMA and insurance providers to monitor when outbreaks are detected in an area to determine if an insured could have applied recommended fungicides in a timely manner and did not.