DEPARTMENT OF AGRICULTURAL AND NATURAL RESOURCE SYSTEMS

Micro Farm Insurance Case Study

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New insurance option

Micro Farm is a new whole-farm revenue insurance program from USDA's Risk Management Agency (RMA). The program first became an option for producers starting in 2021 with major changes in eligibility in 2022.

Targeting small-scale and diverse operations that typically direct market, Micro Farm policies protect revenue from a mix of enterprises on a farm just like the Whole Farm Revenue Protection (WFRP) program. Micro Farm, in contrast, requires less information to apply—only total revenue for 3-5 years from a Schedule F is necessary. Furthermore, Micro Farm policies can insure value-added products, but are limited to operations with less than $350,00 in annual revenue.

Micro Farm is not available to farmers until they have completed three years of farming and filing Schedule Fs; in effect, farmers must be in their 4th year of farming before they have the qualifying three Schedule Fs.

A project to test fit of insurance

Since Micro Farm is a new insurance option for producers who typically have not traditionally purchased crop insurance, Minnesota Farmers' Market Association (MFMA) partnered with Extension and Farm Business Management to engage 15 farm operators and assess whether a Micro Farm policy would fit their operations. The partners gathered necessary information such as Schedule F copies and filled out an intake form to provide quotes through Farmers Unions Insurance. All participating operators gave their feedback on the process and reaction to the cost of the policy by online survey.

About Participating Operators

The project team took care to identify a wide mix of operation types, sizes, and tenure. The sample of farm operators included livestock producers who direct market, diverse specialty crop operators, and those who sell value-added products in addition to farm products.

There was a wide range of farm sizes by sales where the smallest farm sold less than $10,000 in sales in 2022 and the largest sold over half-million.

Project Outcome and Next Steps

Since each participant provided their expected revenue in 2023 to obtain a quote, the team was able to calculate the cost of Micro Farm in 2023 in relation to total sales. The cost of insurance ranged from 1.6% to 2.2% of sales. The median cost for Minnesota corn operations was 2.5% of sales according to the Center for Farm Financial Management (FINBIN, 2022).

Two participants purchased a Micro Farm policy after receiving a quote and did so at the 85% coverage level.

Based on experience of participants through this project, any efforts to insure the target audience through Micro Farm crop insurance must provide greater education and technical assistance. This audience is mostly unfamiliar with crop insurance in any form and both the process and benefits need clarification.

In addition, a majority found the quote to be too expensive despite federal contributions. Any attempts to assist target operators to insure with Micro Farm will need to make the option as affordable as possible.

Survey Responses

Thirteen of fifteen participants responded to an online survey after engaging in the process to obtain a quote.

Past Crop Insurance Experience

A full two-thirds of participants had not purchased crop insurance for their operations in the past, so the decision-making process and context for crop insurance purchase is new.

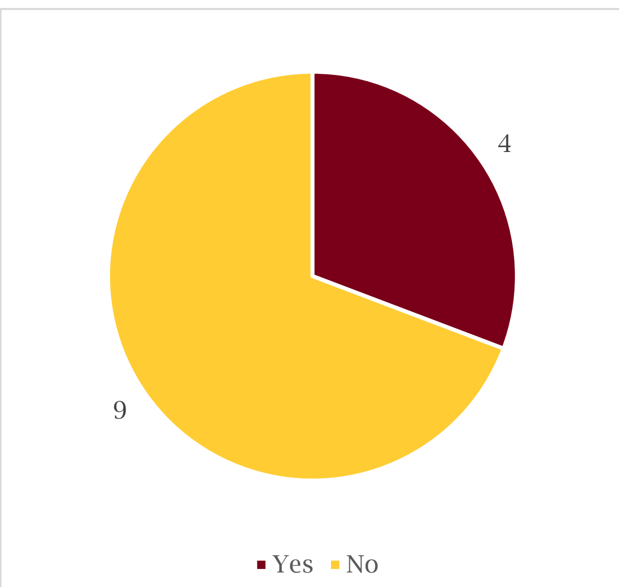

Fig 1: Number of respondents who have purchased crop insurance in past for their operation (n=13)

Of those who had crop insurance in the past, two had Noninsured Crop Disaster Assistance Program (NAP) policies through FSA, with one had Revenue Protection through RMA, and another reported that they had ‘typical corn and soybeans insurance.’

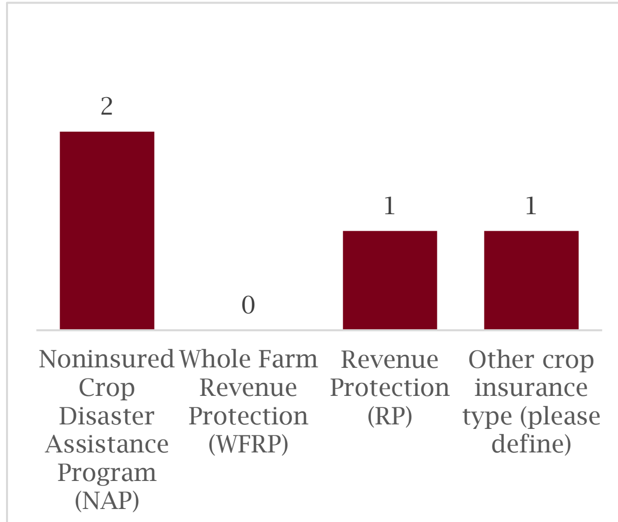

Fig.2: Number of respondents by type of crop insurance purchased in past (n=4)

Familiarity with Micro Farm

The survey asked participants about their familiarity with Micro Farm and Whole Farm Revenue crop insurance before this project. The group split between those that were familiar and those who were not.

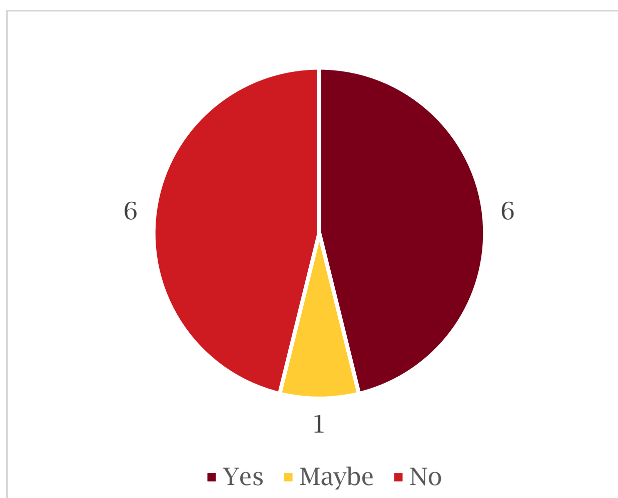

Fig 3: Number of respondents by familiarity with Whole Farm Revenue or Micro Farm insurance before project (n=13)

To gauge the readiness of operators for this kind of crop insurance, the survey asked about whether they would have investigated this option without being part of this project. Only two responded that they would have with a much greater number responding no. This response and the previous question on familiarity indicates that greater awareness is necessary about this insurance option.

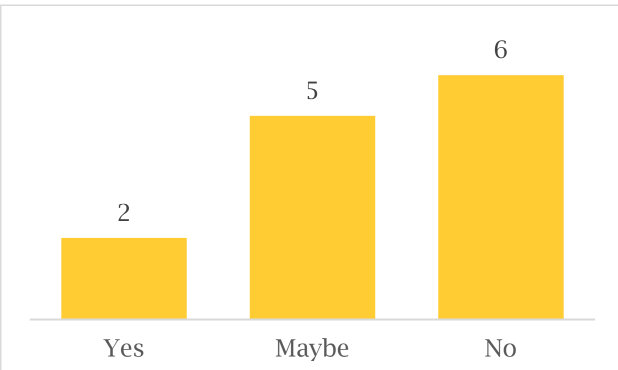

Fig 4: Number of respondents who had planned to investigate Whole Farm Revenue or Micro Farm insurance options even without project involvement (n=13)

Project Response

Some questions in the survey got at their response to their quote and about the process of getting a quote.

The survey asked participants to rank the cost from very inexpensive to very expensive and participants tilted toward expensive.

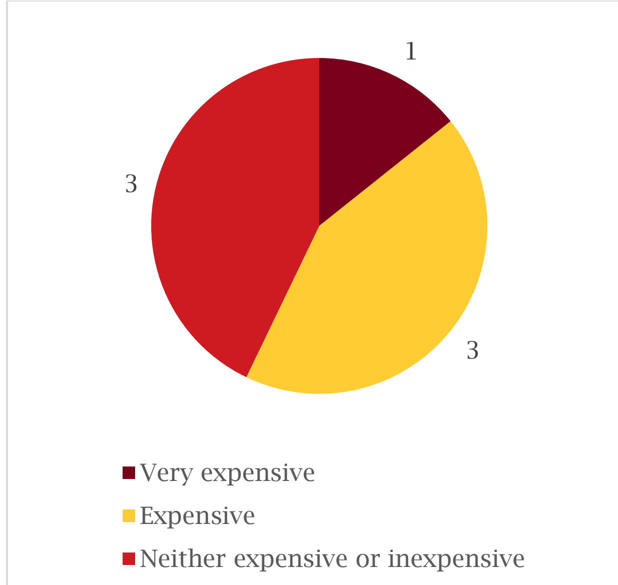

Fig 5: Number of respondents by assessment of Micro Farm insurance quote cost (n=7)

When asked how long the intake form took, the answers ranged from 5 minutes to three hours. A couple of operators had complicated situations, including one whose farm income was combined in their schedule S with another business. Still, nearly all reported that no part of the intake form was difficult or confusing.

Reasons for Not Purchasing Micro Farm

The survey asked participants why those chose not to purchase a Micro Farm policy and the answers were mixed, although one theme is that some are already mitigating risk through diversification:

- In the past these new tools seemed unaffordable. So, although I have heard there have been some good changes, I have not spent the time to look into it more, this year.

- Based on the premium costs, we would have to have a total loss of multiple cash crops. The beauty of having a diversified vegetable farm and marketing those vegetables in a CSA is if we do experience a crop loss(es), we can pivot or cut our losses.

- My farm is in a growth stage and my total revenue has been increasing somewhat significantly over the past 3 years. My expected revenue for 2023 is $280,000. However because microfarm uses the average of my past three years of revenue to calculate my "approved revenue" or the revenue they will insure is only $135,000. At the 80% coverage level that's a guaranteed revenue of $108,000. It's so far below my expected revenue that it makes no sense to purchase the coverage. I want 80% coverage of my $280,000 expected revenue. I would happily purchase that policy.
- Based on the history of my operation, the scenario of losing 20% of my farm revenue before qualifying was not realistic. I also felt like the insurance agent was unable or unwilling to answer my basic questions, nor did he take the time to understand what I was asking.
- Because we've had a few hard years, and the 5-year average that the coverage was based upon didn't seem worth it to us. Especially this year, when we're making a big leap in crops and potential income.
- Our gross is too high, but not much higher than the cap
- We felt we could hedge our bets better with crop diversification. The premium was too high to justify the purchase, however, it was much better than anything else I've seen.

Open Feedback on Micro Farm

- This was a good exercise and is certainly headed in the right direction. The price is still a little high. I think typically commodity corps don't have premiums as high as my quote but their crop is perhaps not as risky.
- NAP will be serious competition especially with the premium reductions for socially disadvantaged folks. I am leaning more in that direction for insurance in the future.
- If I was more dependent on my farm income I would have bought the policy and been grateful for it.
- My farm does not fit, as my average sales from 1-6 years ago were significantly below my projected sales for the upcoming year. My sales were $142,000 in 2016 and have grown to $540,000 in 2022. This is because my farm has been growing. If the approved revenue could account for a growing farm, that would be an improvement for WFR (Whole Farm Revenue). As it sits, it would cost me $30,000 to guarantee 50% of my income. However, because I diversify my crops and am harvesting different crops over an 8-month period, no one storm is going to wipe out more than 50% of my crops at one time. If my approved revenue were to be higher, it would make much more sense for my farm.
- Microfarm also does not work for me, as my sales are above the cap. If the cap were increased to $750k it would encompass many more farms. My projected sales are $550k.
- I went into this project really wanting to find a program that worked. Farming in a changing climate is increasingly risky. I believe local, organic agriculture is imporant for our communities and our

environment and if these insurance programs continue to not work for our farms, it will make it hard to weather the storms we know are coming.

- Thank you for the opportunity to explore this with you! I've learned a lot! And I will continue to keep an eye out for improvements to the program. I'm eager to find a policy that fits

- After our hailstorm in 2020, I talked extensively with an insurance agent about WFR and because we are such a diverse farm, we would not have received any payout for the $60,000 of crop that we lost in our hailstorm because it wasn't a big enough percentage of our total sales, so I did not proceed with getting it, especially since it would have been $10,000 per year. Long ago we did NAP, but the paperwork was way too onerous.

- None (no other feedback) - just to sit down with the insurance agent.

- I thought that the application was geared toward non-specialty growers in units of measure and kinds of income that were able to be include within the scope of our farm, for example any income from agritourism wasn't permissible, and so pulled down our insurable income. I found the inventory portion to be the most frustrating, because we were asked for current inventories of all things, like wool and yarn and eggs and dahlia tubers--things that are either very ephemeral, like the eggs--or things that hold their value for years, like yarn. Dahlia tubers are by far our most valuable crop and something I would be interested in insuring…(but) having so much inventory was very impactful for our premiums and made everything too expensive for how little it would cover. It all just felt a little clunky and like we do things that don't easily fit inside the scope of the program. Perhaps after a few years of growing our business and getting over those hard years that count against our averages will still make it worthwhile? We'll see.

- We are increasing our grow plots this year, we possibly could use this type of insurance for the first time.

- My agent did not ask my clarifying questions, so I may not yet fully understand how crop insurance could fit into my farm. That said, if I do understand it, I believe that the cost far outweighs the benefits.

- I would really like to purchase whole farm revenue protection/microfarm policy. For a growing business, however using an average of historical revenue just doesn't make sense. There needs to be a way to take into account a farm's growth, to be able to adjust the approved revenue to the farm's current business plan instead of its historical records.

- I think based on what we saw and how the policy was laid out, it seemed fitting for a much larger scaled operation. For small farms that are very diversified it could be beneficial, but the premium would need to be less since the claim would be less. I also feel like there are options for farms, especially ones where they are financed through FSA, that have programs to fall back on in case of extreme weather events. Often times those programs can be much less expensive for the farm.

- I had some big crop failures last year that impacted my farm business. Reasonably priced crop insurance would probably be a good idea for my farm.

Conclusions on Micro Farm in 2023

According to the Summary of Business reporter at the RMA website, there were 72 micro farm policies nationwide in 2023 that earned premium. Seven were in MN. The number of micro farm policies sold was higher because that includes policies that are signed up by sales closing date but don't end up having premium (having any actual crops to insure) when the later reporting date rolls around. There were 93 policies sold nationwide, 72 went on to earn premium. In MN, seven were sold and seven earned premium.

Input from crop insurance agents indicates that while Micro Farm policies are easy and efficient to quote, because the program is capped at $350,000 gross revenue, premiums and thus commissions are also capped. Agents are paid a standard commission rate across all policies, so they earn less on Micro Farm policies because of the low capped rate of $350,000 gross revenue. Conversely, Whole Farm Revenue Insurance Policies are more complex and take more time and effort to quote.

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For more information on risk management strategies see https://agrisk.umn.edu/