

# **Examination of Factors Influencing Crop Insurance Purchase Decisions of Illinois Farmers**

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## BACKGROUND

- ❖ A variety of risk management tools and practices have been developed to help farmers mitigate the wide range of production and financial risks that result from diseases, insects, and weather (Smith et al., 2007). One specific tool, crop insurance, provides an effective means for managing production risk. Insurance products, subsidized by the government, are sold to farmers through private insurance companies.
- ❖ According to Risk Management Agency (RMA), there are insurance products available for more than 100 crops where corn, soybean, wheat and cotton crops account for about 75% of total crop insurance premiums (Risk Management Agency, 2009).
- ❖ When selecting crop insurance coverage, farmers must consider multiple factors. The importance associated with relevant factors considered when making crop insurance decisions varies among individual farmers.
- ❖ As available crop insurance options have increased, selecting the appropriate coverage has become a complicated process. The prevalence of crop insurance participation and the existence of multiple selection criteria also make understanding participant decisions more difficult.
- ❖ This study expands on Ginder et al (2009) study in the following ways:
  - ❖ We contacted 2,000 farmers located throughout Illinois compared to 1,000 farmers in Northern Illinois.
  - ❖ Since 2006, a new Farm Bill was adopted (2008). The new Farm Bill has introduced new commodity support programs such as Average Crop Revenue Election (ACRE), products for additional crops, and new safety nets which could impact crop insurance purchases. We included questions regarding the impact of the Farm Bill and its new safety nets on crop insurance purchase decisions.
  - ❖ Previous study found that insurance agents played a major role in crop insurance purchase decisions (types purchased and coverage levels). Since the Federal Crop Insurance Corporation (FCIC) sets the premium rates prices for products, crop insurance providers need to differentiate themselves through their services provided by the agent. Therefore, we included questions regarding the characteristics of agents the farmers value the most.

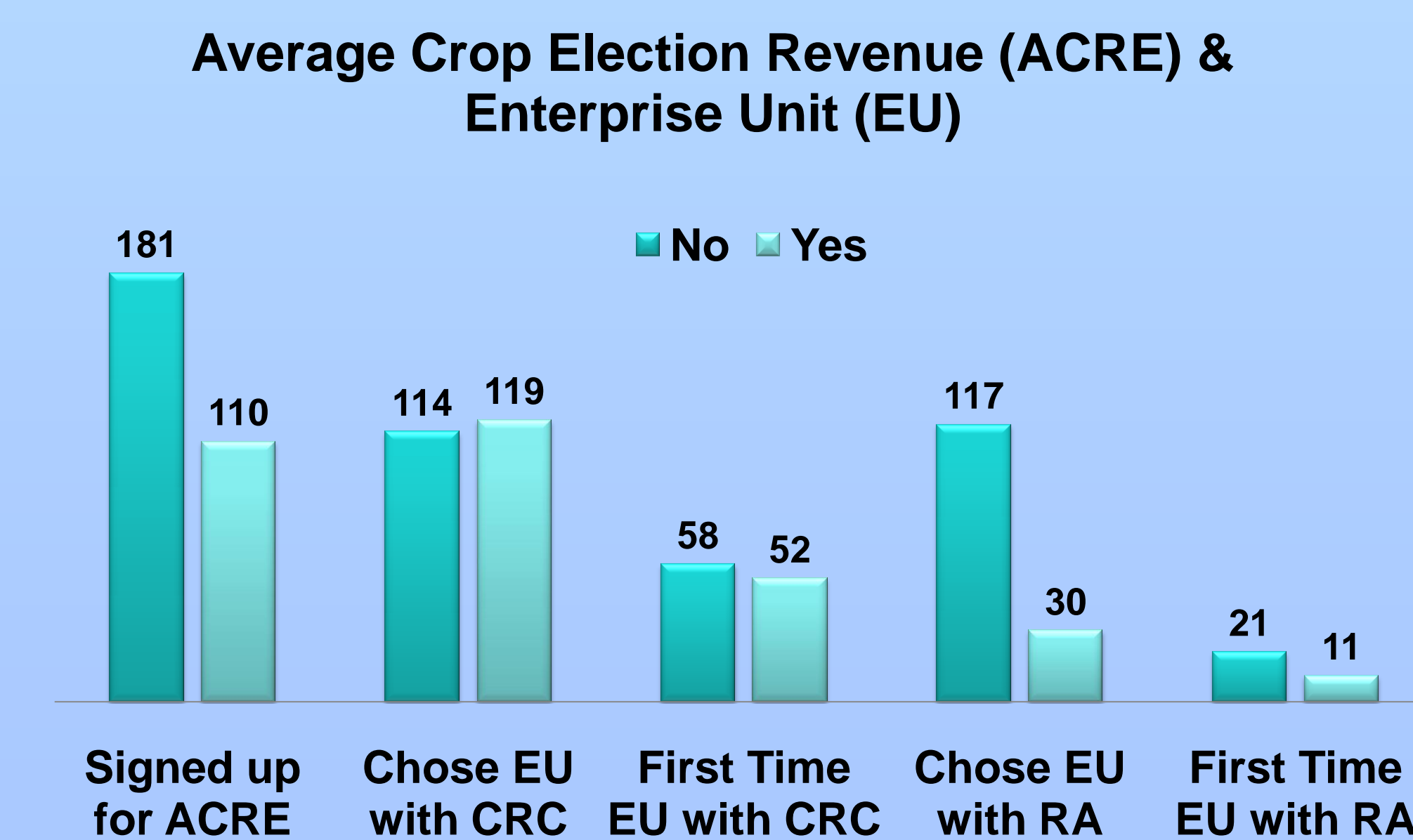
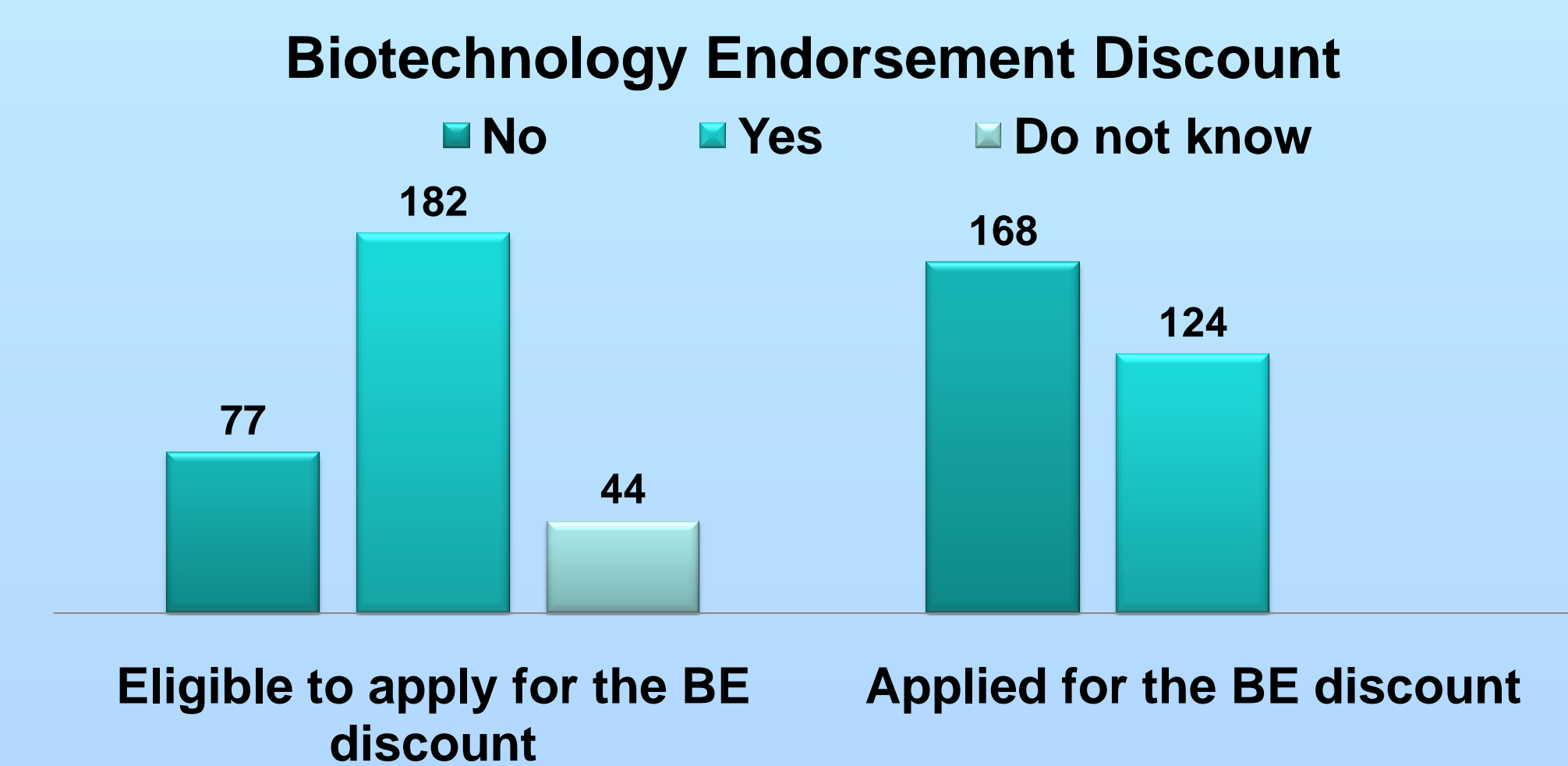
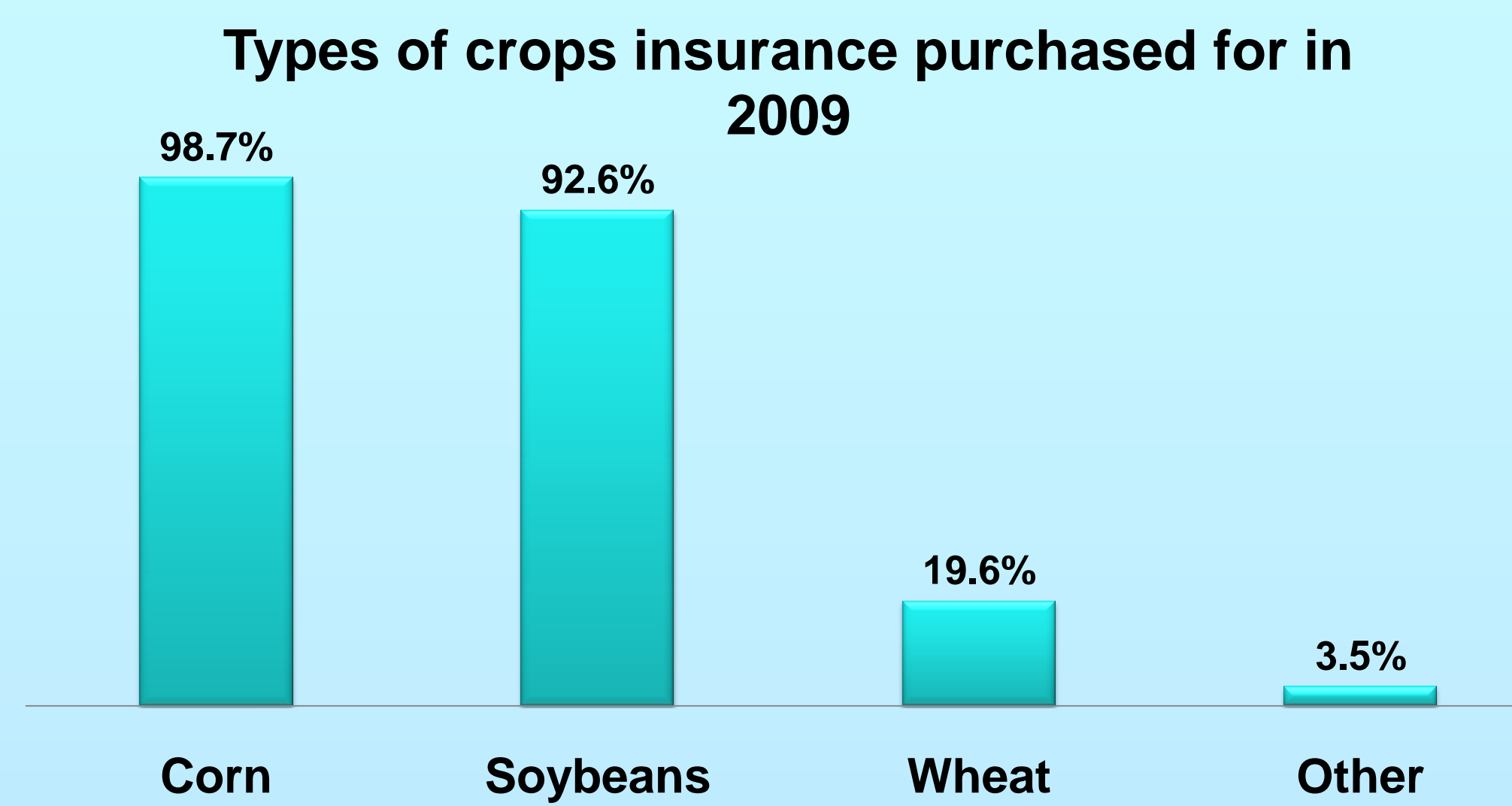
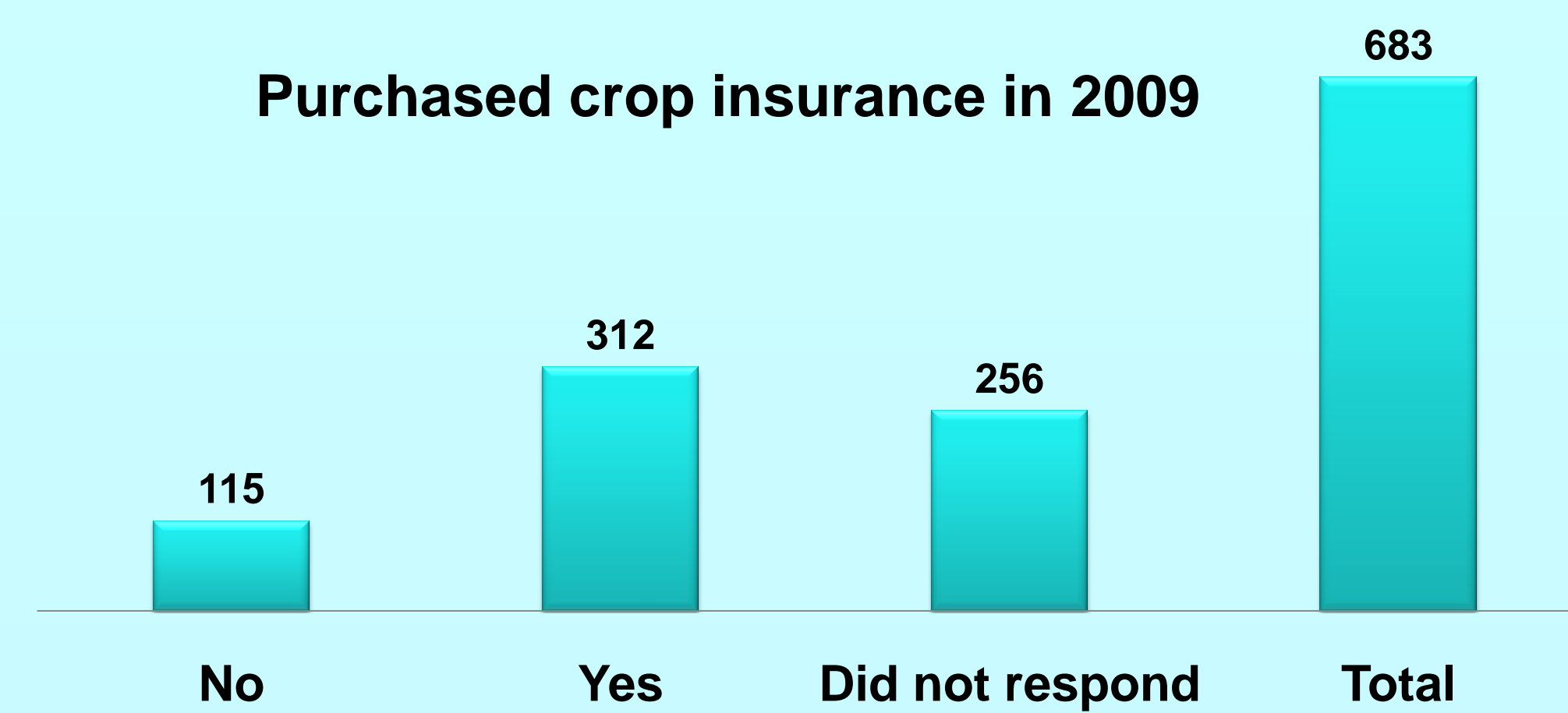
## OBJECTIVES

- ❖ To determine which factors most influence crop insurance purchase decisions made by farmers in Illinois.
- ❖ To examine the level of adoption of new commodity support programs introduced with the 2008 Farm Bill.
- ❖ To identify most important characteristics farmers look for in a crop insurance agent.

## METHODOLOGY

- ❖ Subsequent to IRB approval, the mail survey method following Salant and Dillman (1994) survey principles is used to collect data.
- ❖ 1<sup>st</sup> Farm Credit Services and Farm Credit Services of Illinois provided access to their current and potential customer database. Their database has farmers' contact information as well as farm and farmer demographics like their gross farm income, age, acres-farmed, and net worth. Random sampling is used to select 2,000 farmers from their database.
- ❖ A donation to St. Jude's Children's Research Hospital is made on behalf of the respondents as an incentive to participate.
- ❖ After two mailings and a reminder postcard in between, the response rate was 34%.
- ❖ The data is entered into Excel worksheet and it is analyzed using SAS.

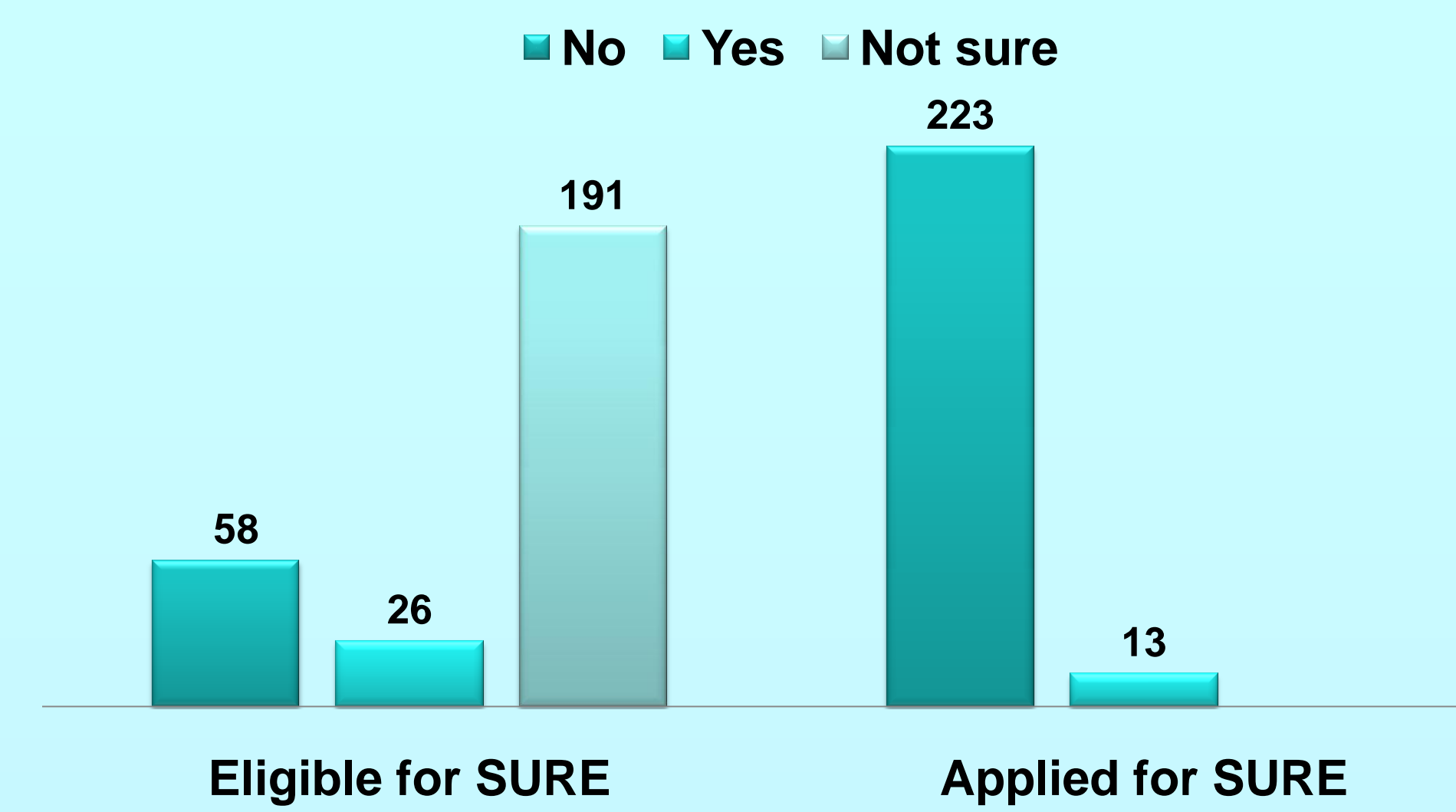
## RESULTS



## ACKNOWLEDGEMENT

- ❖ Financial support was provided by Illinois Council on Food and Agricultural Research, Illinois State University Research Grant, 1<sup>st</sup> Farm Credit Services, and Farm Credit Services of Illinois.

### Supplemental Revenue Assistance (SURE)

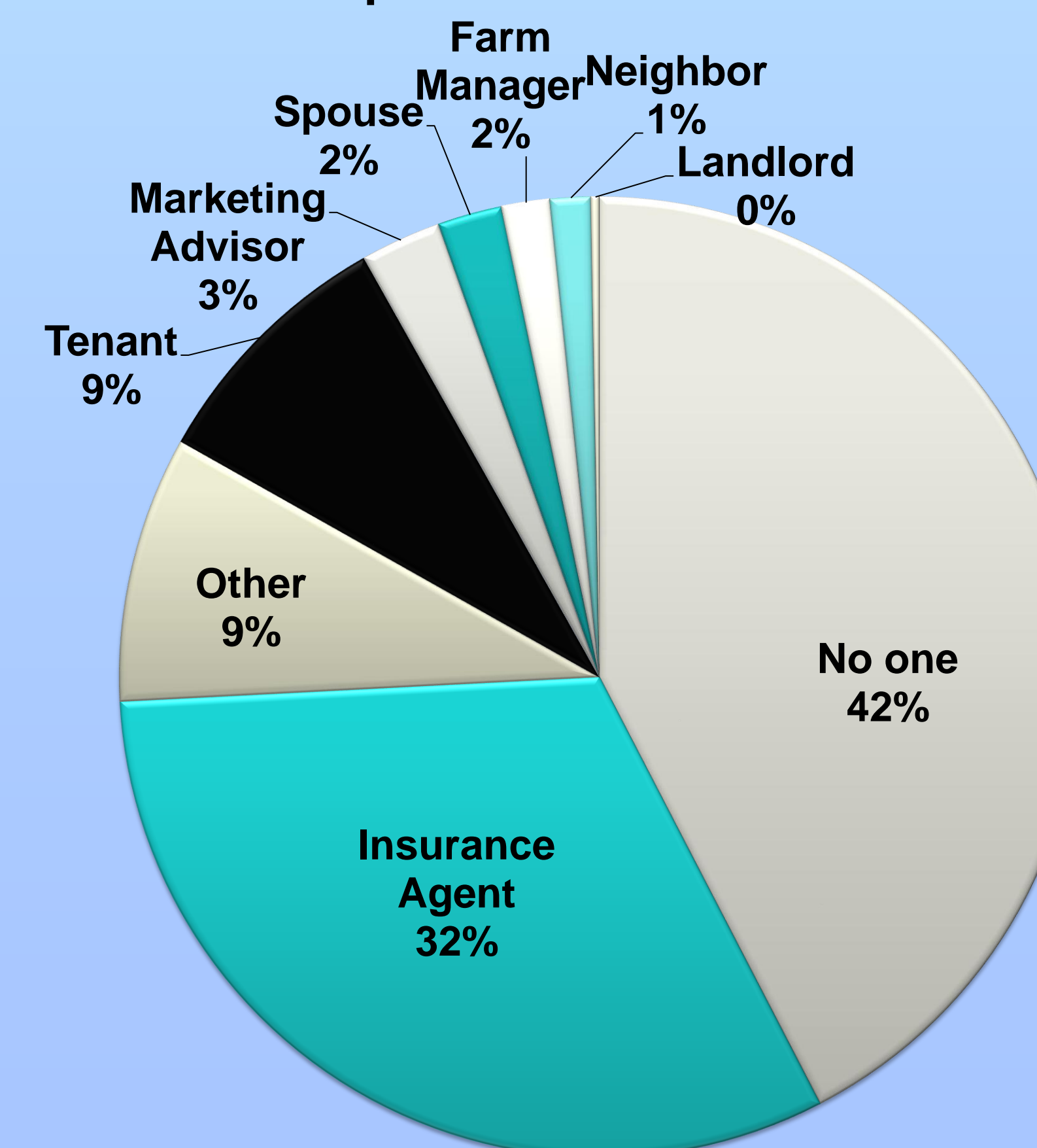


**Weighted Importance of Factors Affecting Crop Insurance Purchase Decision**

Factor	Weighted Importance
Input Cost	2.77
Price of Insurance	2.84
Weather Concerns	3.03
Compatibility of the Insurance Coverage with Grain Marketing Plans	3.81
Agent Recommendations	3.87
Probability of Receiving a Claim Payment	3.99

On a scale of 1-most important; 6-least important.

### Who most influenced crop insurance purchase decision?



Given that the prices for all crop insurance policies are set by USDA's Risk Management Agency, important factors in deciding on an insurance agent.

Insurance Agent	Weighted Importance
understands how crop insurance works	6.23
stays current	5.87
communicates well	5.77
has personal integrity	5.77
knows the agribusiness environment	5.75
stays available	5.68
established relationship	5.55
provides guidance	5.50
professional attitude	5.50
is in for the long haul	5.32
sends reminders	5.27
is locally known	4.92
knows how to use a computer	4.83
is a team player	4.78
is a multi-line insurance agent	3.90
is a friend	3.52
is a family member	2.86

On a scale of 1-not important; 7-extremely important.

## CONCLUSIONS

- ❖ Although 182 farmers were eligible for BE discount, 168 applied for it. It is noted that 44 farmers were not even sure if they were eligible for the discount. Eligibility for SURE is also not clear to many farmers (191).
- ❖ Ginder et al. (2009) found that when asked to identify who most influenced their crop insurance purchase decision, 40% of the respondents indicated that they made their 2005 crop insurance purchase decision independently, with no one else influencing the decision. Meanwhile, 35% of respondents indicated that their crop insurance agent had the most influence on their purchase decision. In 2009, 42% of Illinois farmers stated no one had an influence on their crop insurance purchase decision, while insurance agent was influential for 32% of the farmers.
- ❖ While insurance agent is the most influential person in farmers' crop insurance purchase decision, the most important factor affecting the decision was input costs, followed by price of insurance and weather concerns. The wet weather in planting and harvest probably had a role in weather concerns' higher ranking.
- ❖ The Illinois farmers values insurance agents' understanding of how crop insurance works the most. They also look for an agent who stays current, communicates well, has personal integrity, and knows agribusiness environment. Overall the knowledge and effective communication are the key.

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