Crop insurance is insurance purchased by farmers to cover their potential farming losses caused by natural disaster, market fluctuations, or both. Crop insurance is a critical component of United States agricultural policy and farmers’ risk management tools. However, due to asymmetric information, insurance fraud is often committed by crop insurance customers. Crop insurance fraud damages the trust between insurers and farmers, imposing economic consequences on both sides. However, little research has been done on crop insurance fraud in the United States, specifically in Alabama. The purpose of this study is to compile qualitative information that delineates the causes and consequences of crop insurance fraud. This research contributes to understanding the issue and seeks ways to address the crop insurance fraud issue in Alabama.

For this project, publications relating to crop insurance were reviewed, cases of crop insurance fraud in Alabama were identified and studied, and interviews were conducted to learn about crop insurance fraud. The consensus from the reviewed publications is that more crop insurance regulations are needed to deter fraud. Park et al. (2021) details how to deter fraud with the Risk Management Agency’s (RMA) spot check list (SCL), which uses data mining from the RMA’s farmers’ documents, crop insurance companies, and other sources to identify insured farmers with anomalous crop loss compared to similarly situated producers. By participating in and expanding the SCL program, the insured producers will receive more monitoring and inspections. From this, the authors found that since its implementation, the SCL had made a positive impact on farmers. On average, counties that have participated in the SCL tended to have a decrease in the county-level loss ratio (i.e., total indemnity payments divided by total premium) by 1.4%.

During the interviews, crop insurance fraud cases and the SCL were discussed. Some interviewees explained the underlying economic reasons for insurance fraud. One of the interviewees emphasized that fraud not only causes losses for the crop insurance program, but also increases premiums for farmers who want to purchase crop insurance. Moving forward, an effective way to deter crop insurance fraud in Alabama may be to implement the SCL program in all counties, expand the data used by SCL to include more types of crops, and further study the impact of SCL on farmers’ behavior.

Statement of Research Advisor
Lindsey Wessel explored the institutional background of the federal crop insurance program in the United States and studied an important issue of the program: insurance fraud. She investigated the possible causes and remedies for crop insurance fraud by reading relevant literature and by interviewing crop insurance agents, researchers, and people involved in some actual crop insurance fraud cases. Her work contributes to our understanding of crop insurance fraud issues in Alabama and in the United States.

- Ruiqing Miao, Department of Agricultural Economics and Rural Sociology, College of Agriculture

References
Authors Biography

Lindsey Wessel is a senior-year student pursing a B.S. degree in Agricultural Business and Economics at Auburn University. She has played a key research role on exploring crop insurance fraud in Alabama.

Ruiqing Miao is an associate professor in the Department of Agricultural Economics and Rural Sociology of the College of Agriculture. His research focuses on the interaction between agricultural production and its environment, aiming to understand and quantify 1) agriculture’s impact on land use, water use, water quality, and biodiversity, and 2) how agricultural production is affected by farmers’ behaviors, public policies, agricultural innovation, technology adoption, and climate change.