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The Standard Reinsurance Agreement: A Primer

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Private insurance companies sell and service Federal crop insurance policies, and the Federal Crop Insurance Corporation (FCIC) reinsures them under the Standard Reinsurance Agreement (SRA). Although producers are not parties to the agreement, its terms affect how their coverage is delivered.

The SRA determines how the program's underwriting gains and losses are divided between the companies and FCIC, whose share is ultimately borne by taxpayers. It also sets the administrative and operating (A&O) reimbursement that companies receive for delivering policies, and it limits how much of that reimbursement can be paid to agents. Because companies cannot set premium rates and generally cannot cancel policies with poor loss experience, the SRA's terms strongly influence their willingness to compete for business in a given state. Where those terms make a state less attractive, the effects may appear in the service available to producers.

The SRA's risk-sharing terms date to the agreement negotiated in 2010 for the 2011 reinsurance year and are unchanged in the 2027 SRA, even as new coverage options have been added to the program. Congress has begun to change parts of the agreement through legislation. In 2025, it added A&O payments for states with high loss ratios, set a minimum A&O rate for specialty crops and restored the inflation adjustment of the A&O cap (U.S. Congress, 2025, section 10503). As of November 2026, the House-passed farm bill (H.R. 7567) and the Senate Agriculture Committee's bill (S. 5526) would both require

FCIC to report to the Agriculture Committees on changes to the SRA (U.S. House of Representatives, 2026; U.S. Senate, 2026). Neither bill had been enacted.

This primer describes how the SRA shares underwriting risk between FCIC and private insurers and what those arrangements imply for the delivery of crop insurance. It concludes with open questions about whether the agreement's terms continue to work as intended.

Background

The Federal crop insurance program operates through a unique public-private partnership. Private companies, known as Approved Insurance Providers (AIPs), sell and service crop insurance policies, while the Federal Crop Insurance Corporation (FCIC), administered by the Risk Management Agency (RMA), provides premium support, expense reimbursement, and reinsurance protection. The mechanism that governs this relationship is the Standard Reinsurance Agreement (SRA). The SRA establishes the terms under which FCIC provides reinsurance and subsidies on eligible crop insurance contracts sold by AIPs, in addition to other provisions such as setting Administrative and Operating (A&O) reimbursement rates and establishing calculations for associated capping mechanisms.

Reinsurance Concept

Reinsurance is often described as "insurance for insurance companies." An insurer sells policies to customers and assumes the risk of future losses. Through reinsurance, part of that risk is transferred to another entity in exchange for a share of the premium. The SRA defines "cede" as passing part of the premium and associated liability for losses to another party. Under the Federal crop insurance program, that party is FCIC.

As a result, when crop insurance produces gains, AIPs and FCIC share in those gains according to the SRA's risk-sharing provisions. When widespread crop losses occur, FCIC absorbs a substantial share of the resulting indemnities. Instead of carrying the full financial burden alone, insurers and the federal government jointly bear the program's underwriting results.

Crop Insurance vs. Other Insurance

The SRA exists because crop insurance differs fundamentally from most other lines of insurance. In homeowners, commercial property, or automobile insurance, insurers generally have tools to manage risk. If losses become excessive, companies can often seek higher rates, tighten underwriting standards, increase deductibles, decline certain applicants, or stop writing business in particular areas.

AIPs participating in the Federal crop insurance program have far less flexibility. Premium rates, policy terms, coverage levels, and underwriting rules are established by RMA rather than by individual insurers. In addition, crop insurers generally cannot cancel policies simply because a producer has experienced large losses. In 2023, FCIC clarified through regulation that an AIP may cancel a crop insurance policy only with FCIC's express written consent, noting that this requirement already existed in the SRA (Federal Crop Insurance Corporation, 2023).

These restrictions mean that AIPs cannot easily respond to poor underwriting experience via policy actions. At the same time, agricultural losses are often highly correlated. A drought, flood, freeze, or hurricane can produce losses across thousands of farms simultaneously. This creates catastrophic risk levels that would be difficult for most private insurers to absorb on their own.

The SRA was designed to address this challenge by making the federal government a long-term risk-sharing partner.

SRA Risk Sharing

The SRA allows AIPs to transfer a portion of their underwriting risk to FCIC while retaining enough exposure to encourage sound underwriting, policy servicing, and claims administration. AIPs may designate eligible policies to the assigned risk fund, while policies not designated to that fund remain in the commercial fund. The amount of premium and risk retained by the AIP, and the subsequent sharing of underwriting gains or losses, differ between the two funds.

For policies placed in the assigned risk fund, an AIP cedes 80 percent of the premium and associated liability to FCIC and retains the remaining 20 percent as net book premium. The AIP also retains a relatively

small share of any resulting underwriting gain or loss. In the commercial fund, an AIP may retain between 35 and 100 percent of the premium and associated liability, although AIPs generally retain 100 percent. Because AIPs bear substantially more risk in the commercial fund, they also retain a larger share of any underwriting gain. As a result, the commercial fund generally contains business that AIPs are more willing to retain based on their assessment of its risk and expected profitability.

Commercial fund gain- and loss-sharing terms vary by state. State Group 1 includes Illinois, Indiana, Iowa, Minnesota, and Nebraska, which had historically produced comparatively favorable underwriting results when the 2011 SRA was negotiated. AIPs consequently retain a larger share of commercial fund losses and a smaller share of gains in these states. The SRA itself does not provide criteria for a state's inclusion in Group 1.

State Group 3 includes Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. These states were identified as comparatively underserved markets. To encourage AIPs to write and service business in these states, the SRA returns part of the industry's Net Book Quota Share to AIPs according to their Group 3 business, a payment commonly called the "giveback." The SRA itself lists the Group 3 states without defining how states are included or specifying criteria for moving a state out of the group. State Group 2 includes the remaining states.

Groups 2 and 3 have the same basic commercial fund gain- and loss-sharing terms, but Group 3 premium is also used to determine each AIP's share of the giveback. Assigned risk fund terms are the same in every state, but no AIP may designate more than 75% of the net book premium within each state into the assigned risk fund. Table 1 summarizes the applicable sharing percentages in the 2027 SRA (USDA Risk Management Agency, 2026), and Figure 1 illustrates how those percentages affect an AIP's retained loss ratio for each fund and state group.

Capital and Market Implications

An AIP's allocation of premium between the commercial and assigned risk funds can provide insight into its assessment of underwriting conditions within a state. A high proportion of commercial fund premium generally indicates that the AIP is willing to retain substantial underwriting risk and expects the business to offer a reasonable opportunity for profit. Because additional premium can increase the AIP's potential

Table 1: ***AIP Retention and Sharing of Underwriting Gains and Losses***

Fund / State Group	Initial AIP retention	AIP share of underwriting losses	AIP share of underwriting gains
Commercial Fund State Group 1	At least 35% of premium and associated liability, generally 100%	100%–160% LR: 65% 160%–220% LR: 45% 220%–500% LR: 10% >500% LR: 0%	65%–100% LR: 75% 50%–65% LR: 40% Below 50% LR: 5%
Commercial Fund State Groups 2 and 3	At least 35% of premium and associated liability, generally 100%	100%–160% LR: 42.5% 160%–220% LR: 20% 220%–500% LR: 5% >500% LR: 0%	65%–100% LR: 97.5% 50%–65% LR: 40% Below 50% LR: 5%
Assigned Risk Fund	20% of premium and associated liability	100%–160% LR: 7.5% 160%–220% LR: 6% 220%–500% LR: 3% >500% LR: 0%	65%–100% LR: 22.5% 50%–65% LR: 13.5% Below 50% LR: 3%

Note: LR = loss ratio. Percentages are applied by layer to the AIP's retained net book premium; they are not single percentages applied to the entire gain or loss. After gains and losses are summed across states and funds, the AIP cedes 6.5% of its cumulative underwriting gain or loss, with the associated premium and losses, to FCIC through the Net Book Quota Share. In years when the Net Book Quota Share of all AIPs combined is a net gain to FCIC, FCIC pays 1.5% of all AIPs' combined underwriting gains and losses back to AIPs, divided according to each AIP's share of buy-up (additional coverage) net book premium in Group 3 states, so FCIC keeps 5% of the combined result in those years.

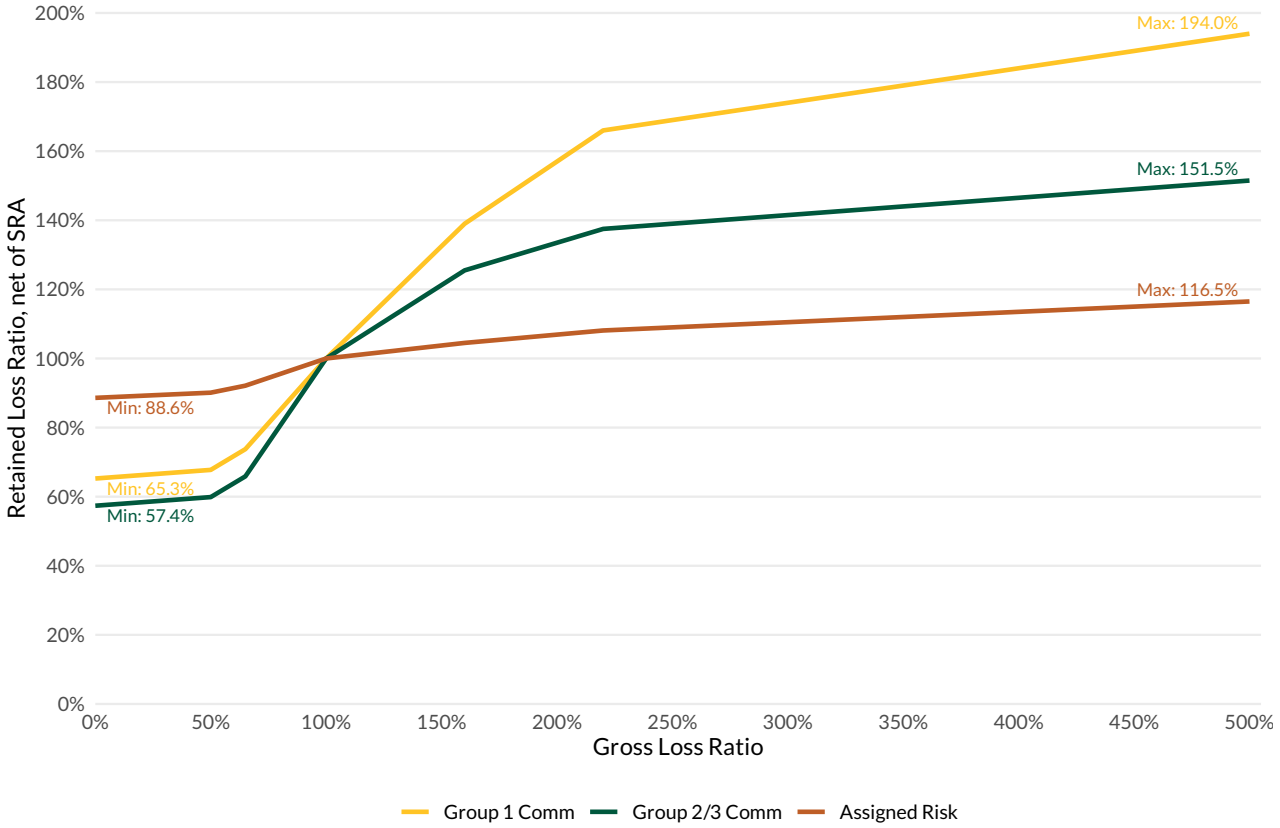
Source: 2027 Standard Reinsurance Agreement (USDA Risk Management Agency, 2026).

underwriting gains, this expectation may create an incentive to provide a high level of service and compete for additional business in the state.

Conversely, extensive use of the assigned risk fund may indicate concern about the profitability or volatility of a state's business. Under the SRA, an AIP retains only 20 percent of the premium and associated losses placed in the assigned risk fund. However, assigned risk fund net book premium cannot exceed 75 percent of the AIP's total net book premium in a state. If that threshold is exceeded, FCIC reduces the assigned risk fund allocation proportionately and assigns the excess to the commercial fund.

An AIP approaching this limit may therefore be signaling substantial concern about accepting underwriting risk in the state. Once the limit is reached, the AIP's principal mechanism for transferring additional state-level risk to FCIC is constrained, and additional business may have to remain in the commercial fund. The AIP may still reduce its commercial fund retention, down to the 35 percent minimum, although doing so further limits its potential for underwriting gains. This can weaken the AIP's incentive to pursue premium growth or invest in service capacity within that state. In more severe circumstances, the AIP may seek to reduce its presence as much as program requirements allow. Although its ability to cancel policies, decline eligible business, or withdraw selectively is more limited than in conventional insurance markets, agent contracts, commission rates, and overall customer service may be affected.

Figure 1: ***Effects of the SRA on AIP Retained Loss Ratio***



Note: Retained loss ratio on the AIP-retained book after gain and loss sharing. Retained loss ratios are shown before the Net Book Quota Share.

Source: ARPC calculations using the 2027 Standard Reinsurance Agreement (USDA Risk Management Agency, 2026).

Placing more business in the assigned risk fund and reducing commercial fund retention both shift a larger share of the state's underwriting gains and losses to FCIC. Where losses persist, those shifts raise FCIC's costs.

Renegotiation and Recent Legislation

The SRA's financial terms can change in two ways: through renegotiation between FCIC and the AIPs, or through legislation.

FCIC may renegotiate the financial terms once in each five-reinsurance-year period after 2011, or sooner if the Secretary determines that AIPs as a whole face unexpected adverse circumstances (U.S. Code, 2023,

subsection (k)(8)). Since the Agricultural Act of 2014, a renegotiated agreement must, to the maximum extent practicable, be budget neutral compared with extending the prior agreement and keep estimated total A&O at or above the prior agreement's level. The 2011 SRA resulted from a full renegotiation, and all 16 AIPs participating at the time signed it in 2010 (Congressional Research Service, 2010). The risk-sharing terms in Table 1 originate in that agreement and remain in the 2027 SRA.

Legislative changes are not renegotiations, so the budget neutrality requirement does not apply to them, although the Congressional Budget Office estimates their cost. The statute sets maximum A&O reimbursement rates, and the SRA sets the actual rates within those limits (U.S. Code, 2023, subsection (k)(4)). The SRA also caps total A&O on most individual plans at a national dollar amount. Area-based plans, catastrophic coverage and crops in counties that had no premium rates in 2010 fall outside the cap.

Most recently, Congress used this approach in 2025. Section 10503 of P.L. 119-21 provides additional A&O equal to 6% of premium on individual buy-up policies in states where the loss ratio on those policies exceeds 120% (U.S. Congress, 2025). The same section established a 17% minimum A&O rate for specialty crops and restored the inflation adjustment to the A&O cap, beginning with the 2026 reinsurance year. Separately, the SRA provides additional A&O of 1.15% of net book premium on eligible policies in states with loss ratios above 120%.

The 2026 farm bills contain further SRA provisions, although neither had been enacted as of November 2026. The House-passed bill (H.R. 7567) and the Senate Agriculture Committee's bill (S. 5526) would both hold A&O rates at their 2026 levels for 2027 and subsequent years (section 11009 in each) (U.S. House of Representatives, 2026; U.S. Senate, 2026). Both would also require FCIC, within 90 days of enactment, to report to the House and Senate Agriculture Committees on SRA changes needed to expand the availability of coverage that meets the risk management needs of producers, states, regions and commodities (House section 11015, Senate section 11017).

The report would take the budget neutrality requirement into account. It would examine the potential benefit of at least one additional reinsurance fund for states with consistently high loss ratios, a term neither bill defines, and of an additional fund with alternative risk-sharing terms for AIPs that sell area plans. It would also address how to ensure that AIPs spend A&O on delivering risk management tools and supporting the agent workforce, in an amount not less than the historical percentage, as well as agent compensation that is consistent with historical norms and provides a reasonable return. FCIC would consult representatives of producers from each state, region and commodity, along with agents, AIPs and both committees. Neither bill would change the risk-sharing terms in Table 1.

Open Questions

The SRA's core terms were set for the program as it existed in 2010. Whether they remain well suited to the program today is an open question with implications for producers, AIPs and taxpayers.

- **How do AIPs respond as they approach the assigned risk fund limit in a state?** Their remaining options either shift more underwriting risk to FCIC or reduce the incentive to compete for business in that state. What are the implications for program costs and for the service available to producers?
- **Is the giveback an effective way to encourage service in Group 3 states?** Without a definition of an underserved state, how should its effectiveness be evaluated How could the state list be modified if shifts in service levels are identified?
- **Does the A&O cap still fit the program?** The cap applies to most individual plans but not to area-based plans or catastrophic coverage. If more of the program's premium shifts to plans outside the cap, what does that imply for how delivery is funded?
- **What roles will renegotiation and legislation play in future changes to the SRA?** Renegotiation must, to the maximum extent practicable, be budget neutral and maintain total A&O, while recent changes have come through legislation.

Both farm bills would direct FCIC to address some of these issues in its report to Congress. The questions are likely to remain relevant whether or not either bill is enacted.

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The Agricultural Risk Policy Center at North Dakota State University conducts independent, evidence-based economic research to inform agricultural policy and strengthen the U.S. farm safety net. The Center's work focuses on evaluating risk management tools such as crop insurance and disaster assistance, analyzing market disruptions, and providing timely insights that support producers, policymakers, and industry leaders.

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About the Authors

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