

A Case Study of Crop Insurance Fraud in Alabama

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Crop insurance is insurance purchased by farmers to cover their potential farming losses caused by natural disaster, market fluctuation, or both. Crop insurance is a critical component of United States agricultural policy and farmers' risk management tools. However, due to the asymmetric information an insurance customer may have, crop insurance suffers from insurance fraud made by customers. Crop insurance fraud damages the trust between insurers and farmers, imposing economic consequences on both sides. Little research has been done on crop insurance fraud in the United States, specifically in Alabama. The purpose of this study is to provide a compilation of qualitative information that clearly delineates the causes and consequences of crop insurance fraud. This research will contribute to understanding the issue and seeks ways to address the crop insurance fraud issue in Alabama.

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

One of the interviews conducted is with an anonymous source involved with the Anna Marie Knowles

case. Knowles was a U.S. Department of Agriculture employee at the Farm Service Agency office in Dothan, Alabama. She filed a claim through the federal crop insurance program where she allegedly falsely reported that a drought had caused her to lose the majority of her squash crop. During the interview, the source said that Knowles was "claiming that she planted so many acres, but the reality was that there was no market for the squash. If she was successful, where was she going to sell the squash?" After looking at prices proceeding with the planting date of the squash, the source concluded that it would have made more economic sense to have planted other crops.

In the other interviews, crop insurance and the SCL were discussed. One of the interviewees emphasizes that fraud not only hurts the crop insurance program, but it also hurts other farmers who want to purchase crop insurance. A majority of the concerns with fraud are solved by the SCL program. Moving forward, an effective way to deter crop insurance fraud in Alabama is to implement the SCL program in all counties 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.

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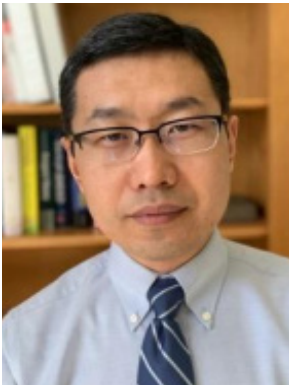
References

[1] Park, Sungkwol, Xiaoyong Zheng, Roderick M. Rejesus, Barry K. Goodwin. 2021. "Somebody's watching me! Impacts of the spot check list program in U.S. crop insurance." *American Journal of Agricultural Economics* 104(3): 921-946.

Authors Biography



Lindsey Wessel is a senior-year student pursuing 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.