Since the publication of our last analysis on livestock and dairy insurance programs and the risks associated with subsidy harvesting, both the regulatory landscape and industry dialogue have evolved. While CIH has always maintained a firm opposition to the practice and has undertaken efforts to educate stakeholders about its risks, the program's language now explicitly prohibits subsidy harvesting, commonly referred to today as subsidy capture. It is in the best interest of all parties that growers and agents use the program and its subsidies for risk-management purposes as intended. This update highlights recent program language changes that address subsidy capture, strengthen program integrity, and provide clearer guidance for all stakeholders.

**Reinsurance Year 2026 Policy Changes**

USDA's 2026 Reinsurance Year (RY26) began on July 1, 2025, and introduced several key policy changes. In particular, the RY26 basic provisions for LRP, DRP, and LGM implement stricter rules designed to prevent subsidy capture—defined as using government-subsidized insurance to exploit price differences for profit rather than for legitimate risk management. The explicitly prohibited activities are detailed in Section 25 of the LRP Basic Provisions. While the trades outlined in this section are prohibited, violations are not limited to these examples. Subsidy capture is defined not only by specific trade practices but by intent.

In short, if a strategy makes sense even without the subsidy or due to market changes after buying insurance, it's generally allowed; if it only makes sense because of the subsidy, it may be subsidy capture. Importantly, these restrictions are not intended to bar producers from using derivatives alongside livestock insurance. Instead, they specifically target trades with no genuine risk-management purpose. As outlined in a recent blog post, examples like selling calls or lower-premium puts to reduce costs are generally permitted, while systematically selling puts near coverage prices after the sales closing date is prohibited.

Purchasing insurance with an end date at or near options expiration does not necessarily indicate subsidy capture. Clustering often occurs around these periods because insurance premiums tend to be more affordable. This timing allows growers to tailor their risk-management strategies to their individual circumstances, cash-flow considerations, and operational needs. Some producers take a portfolio-based approach, aligning their livestock-insurance end dates with their exchange-traded positions. Doing so helps ensure permitted trades are consistent with the rest of their overall risk-management strategy.

Violating the prohibition against subsidy capture carries severe consequences. Any producer found in violation will forfeit indemnity payments while remaining liable for all premiums owed. Because each insured certifies to the government on every SCE that they will not engage in subsidy capture, violations may constitute a criminal offense. By signing the SCE, both the grower and the agent legally affirm the Certification Against Subsidy Capture, attesting that they are not offsetting LRP coverage with subsidy-driven trades.

If a violation is uncovered, future livestock insurance claims will be denied, premiums will remain due on all active coverage, and the grower may be barred from participating in any crop-insurance or other USDA programs. Additional civil and criminal penalties may also apply. Clear, inadvertent errors that breach Section 25 policy language are reviewed separately but avoiding any activity that could be construed as subsidy capture remains in the best interest of all insured parties.

**CIH Commitment to Program Integrity**

CIH has long maintained a clear and consistent stance against subsidy capture. This commitment extends beyond internal policy and training to include broad industry education efforts. CIH has led best-practice presentations on LRP, published articles in trade publications advocating for program improvements, produced white papers on the risks of subsidy harvesting, and hosted seminars for lenders to highlight the potential harm to all parties involved. We recognize that risk-management strategies can be complex, which is why we continue to provide clear, practical guidance to both clients and industry partners.

CIH's internal policy strictly prohibits any attempt to capture price differentials between livestock insurance and comparable exchange-traded products. Thanks to ongoing education efforts, neither CIH nor its affiliated brokerage has observed clients engaging in such practices.

To further guard against inadvertent violations, CIH has developed an internal auditing tool that monitors trades in real time and alerts compliance staff if any activity may meet the definition of subsidy capture. Any flagged trades would be promptly reviewed, and clients would be contacted to address potential issues before they become violations. This proactive approach helps preserve program integrity—essential to the long-term success of livestock and dairy insurance. Demonstrating that subsidy capture is not occurring also builds confidence in the program and could encourage future product expansions and broader adoption.