Fundamentals of Risk Management and Crop Insurance

Clifton Parker
NC Agromedicine

Funded by the United States Department of Agriculture’s Risk Management Agency (RMA)

March 5, 2013
Program Sponsorship, Coordination, and Delivery

USDA / Risk Management Agency (RMA)

- Oversees the nation’s $115 billion Federal Crop Insurance Program
- Raleigh, NC, Regional Office (1 of 10 nationwide) covers 14 Eastern US states
- Around 500 total RMA employees
- RMA’s main offices are located in Washington, DC, and Kansas City
Federal Risk Management (Crop Insurance) Programs

United States

In *2011, RMA insured over $115 billion in crop value across 1.1 million policies, 265.7 million acres, and 100 different commodities.

North Carolina

In *2011, RMA insured over $1.8 billion in crop value across 19,000 policies, over 3.5 million acres, and 20+ different commodities.

*Data current through 12/04/2012
Program Sponsorship, Coordination, and Delivery

www.RMA.USDA.gov
Five Categories of Agricultural Risk

1. Production Risk
2. Market Risk
3. Financial Risk
4. Human Risk
5. Legal Risk
A Wide Range of Federal Crop Insurance Programs

- Common Crop Insurance Policy offers
  - Yield Protection (YP)
  - Revenue Protection (RP)
  - Revenue Protection with Harvest Price Exclusion (RPHPE)
- Adjusted Gross Revenue (AGR)
- Livestock Risk Protection (LRP)
- Livestock Gross Margin (LGM)
- Pasture, Rangeland, and Forage (PRF)
- Group Risk Plans (GRP)
Federal Crop Insurance Programs

Federal Crop Insurance Programs are available for the following North Carolina commodities*:

<table>
<thead>
<tr>
<th>Apples</th>
<th>Grain Sorghum</th>
<th>Popcorn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>Grapes</td>
<td>Potatoes</td>
</tr>
<tr>
<td>Blueberries</td>
<td>Nursery</td>
<td>Processing</td>
</tr>
<tr>
<td>Cabbage</td>
<td>Livestock (multiple)</td>
<td>Beans</td>
</tr>
<tr>
<td>Canola</td>
<td>Oats</td>
<td>Rye</td>
</tr>
<tr>
<td>Corn</td>
<td>Onions</td>
<td>Soybeans</td>
</tr>
<tr>
<td>Cotton</td>
<td>Pasture/Range/Forage</td>
<td>Tobacco</td>
</tr>
<tr>
<td>Fresh Mkt</td>
<td>Peaches</td>
<td>(multiple)</td>
</tr>
<tr>
<td>-Beans</td>
<td>Peanuts</td>
<td>Wheat</td>
</tr>
<tr>
<td>-Corn</td>
<td>Pears</td>
<td>Whole Farm</td>
</tr>
<tr>
<td>-Tomatoes</td>
<td>Peppers</td>
<td>(AGR-Lite)</td>
</tr>
</tbody>
</table>

*Coverage varies by county.
Other crops may be insurable by Written Agreement.
Behind the Policy

Federal Crop Insurance Corporation

• Board of Directors
  – Approve policies
  – Policy changes
  – Determine general program direction

• Risk Management Agency
  – Administers the policies
  – Oversees the program
Behind the Policy

• Agent
  – Independent
  – Captive (Several companies such as Farm Bureau)
• Managing General Agency/Company
• Reinsured Company
  – Service policy
  – Cedes unwanted liability to FCIC
  – Cedes unwanted liability to outside reinsurers
Basic Parts of Crop Insurance Program

• Basic Provisions
  The underlying policy for majority of crop insurance programs (e.g., corn, wheat, cotton, tobacco, etc.)

• Crop Provisions
  The provisions specific to crops (e.g., coarse grains, small grains, cotton, processing beans, etc.)

• Special Provisions
  The provisions that are specific to a crop and county, such as rates, Transitional yields, dates, etc.

• Catastrophic Risk Endorsement
  Contains provisions specific to the Catastrophic Level of Insurance
Terms and Definitions

Actual Production History- APH

• A producer’s yield, calculated and approved by the company, is used to determine the production guarantee.

• The production guarantee is determined by summing the yearly actual, assigned, adjusted, or unadjusted transitional yields.

• The sum is divided by the number of yields contained in the database, which will be between 4 and 10 years.
Terms and Definitions

Price Election
- Prices contained in special provisions or an addendum to the Special Provisions
- Used to compute the guarantee, premium and indemnity

Production Guarantee
Number of pounds, bushels, tons, cartons, or other unit of measure determined by multiplying the approved yield per acre by the coverage level percentage selected by policyholder.
Terms and Definitions

Coverage Level

50%- 85% depending on crop

Catastrophic Risk Protection (CAT)

• Minimum level of coverage offered by Federal Crop Insurance
• 50% level of coverage at 55% of price
Important Dates

Sales Closing Date
• Date by which an application must be filed
• Specified in the County Special Provisions
  – NC spring crops > February 28
  – NC fall Crops > September 30
  – Perennial Crops > November 20
  – Potatoes > January 31
• **Acreage Report Date**
  – Date in which the policyholder is required to submit planted acreage

• **Production Report Date**
  – Date in which policyholder is required to submit prior years production
Important Dates

Premium Billing Date
• Earliest date upon which you will be billed for insurance
• Date is listed in the county’s Special Provisions

• Cancellation Date
  Date specified in the Crop Provisions on which coverage for the crop will renew unless canceled
Important Dates

Earliest Planting Date
• The earliest date you may plant the insured crop and be eligible for a replant payment
• Listed in the Special Provision for the county

End of Insurance Period
Date upon which crop insurance ceases for the year
Important Dates

Final Planting Date
• Date by which the crop must be initially planted in order to receive the full production guarantee
• Listed in the County Special Provisions

Late Planting Period
• Period that begins the day after the final planting date and extends 25 days later, unless otherwise specified in the Crop Provisions or Special Provisions
Terms and Definitions

Summary of Coverage
The insurance company’s statement to the policyholder - specifies the amount of coverage by unit.

Written Agreement
Document that alters designated policy terms if allowed by policy terms (for crops without actuarial rates for the county).
Written Agreements

• At least three years of Verifiable Production records for the crop or similar crop
• Similar crops – Fresh Market Tomatoes (Example):
  – Peppers
  – Chili Peppers
  – Processing Tomatoes
Written Agreements

- Evidence the crop can be produced in county
- Legal Description of Land
- FSA, Farm Serial Number, Tract, Fields
- FSA Map
- Viable Marketing Outlet
Terms and Definitions

Basic Unit

All acreage of the insurable crop in county on the date coverage begins for the crop year.

– In which the policyholder has 100% share; or
– Which is owned by one person and operated by another person on a share basis.
Terms and Definitions

Optional Units
By Farm Serial Numbers in most policies (some exceptions)

Enterprise Unit
All insured acreage of crop in a county.
# USDA Subsidy

<table>
<thead>
<tr>
<th></th>
<th>50</th>
<th>55</th>
<th>60</th>
<th>65</th>
<th>70</th>
<th>75</th>
<th>80</th>
<th>85</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium subsidy % Basic Units</strong></td>
<td>67</td>
<td>64</td>
<td>64</td>
<td>59</td>
<td>59</td>
<td>55</td>
<td>48</td>
<td>38</td>
</tr>
<tr>
<td><strong>Your share %</strong></td>
<td>33</td>
<td>36</td>
<td>36</td>
<td>41</td>
<td>41</td>
<td>45</td>
<td>52</td>
<td>62</td>
</tr>
<tr>
<td><strong>Enterprise Unit subsidy %</strong></td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>68</td>
<td>53</td>
</tr>
<tr>
<td><strong>Your Share %</strong></td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>32</td>
<td>47</td>
</tr>
</tbody>
</table>
Terms and Definitions

Good Farming Practices

• Production methods utilized which will allow the crop to produce at least the yield used to determine the production guarantee.

• For conventional or sustainable farming practices, practices generally recognized by agricultural experts as appropriate for the area.

• Organic farming practices are practices generally recognized by the organic agricultural industry as appropriate for the area.
Terms and Definitions

Prevented Planting

• Failure to plant the insured crop by the final planting date designated in the county Special Provisions.
• The insured farmer must have been prevented from planting by an insured cause of loss that is general in the area.
Terms and Definitions

Irrigated practice

Water is artificially applied during the growing season with appropriate systems and timing with the intention of providing quantity of water needed to produce

- At least the yield used to establish the irrigated production guarantee; or

- Amount of insurance on the irrigated acreage planted to the insured crop.
Terms and Definitions

Notice of loss
Policyholder must notify company within timeframes outlined in crop provisions

Consent
Approval in writing by the insurance company for policyholder to take specific actions
Indemnity Example

Sample Loss Example:

200    Bushel per acre APH yield
\[ \times 0.75 \] Coverage level percentage
150    Bu. per acre guarantee
\[ - 40 \] Bu. per acre production
110    Bu. per acre loss
\[ \times 5.50 \] Price election
$605    Indemnity per acre
\[ - 40 \] Estimated producer premium per acre
$565    Net indemnity per acre
Risk: Chance ................ Bad
Producers are strongly urged to contact a local crop insurance agent as soon as possible for more detailed information and premium quotes.

For a list of crop insurance agents, contact the local USDA Farm Service Agency office or logon to the following Risk Management Agency web site: http://www.rma.usda.gov/tools/agents/

NC Agromedicine Institute
Clifton R. Parker
919-795-9591

Robin Tutor
252-744-1045