CROP INSURANCE UPDATE

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CSU Farm Credit Student Board

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The Common Crop Insurance Policy- (COMBO Policy)

Many new changes have come about for Crop Insurance. The Risk Management Agency or the RMA has combined policies in an attempt to simplify crop insurance programs creating what is called The Common Crop Insurance Policy or the COMBO Policy. They have essentially combined the Crop Revenue Coverage (CRC), Revenue Assurance (RA), Income Protection (IP), and Indexed Income Protection (IIP). Now producers have one policy choice that gives the options of Yield Protection (YP), Revenue Protection (RP), and Revenue Protection with Harvest Price Option (RPE). This will help create more of a consistent coverage for insurance protection and also a more predictable cost that the producers will face.

The COMBO Policy will be effective for the 2011 crop year and the existing policies will be converted to the new COMBO Policies[1]. For 2011, the crops in Figure 1 can have yield or revenue protection. Figure 2 summarizes these conversions for the different policies. The coverage levels and protection provided will all be the same; they will all just be in one policy. Please note that any county provided products will not change with the new COMBO Policy. More detail will be provided on these new plans individually to help determine which one is the best fit for your operation.

Figure 1: Eligible Crops for RP & YP for 2011

- Corn
- Cotton
- Rice
- Canola/Rapeseed
- Sunflower
- Wheat
- Grain Sorghum
- Soybean
- Barley
- Malting Barley

[1]Crops that have a contract change date after April 30, 2010, which includes most crops for 2011 and also for crops for 2012 with a 2011 crop year contract change date before April 30, 2010 will be effective at this time.

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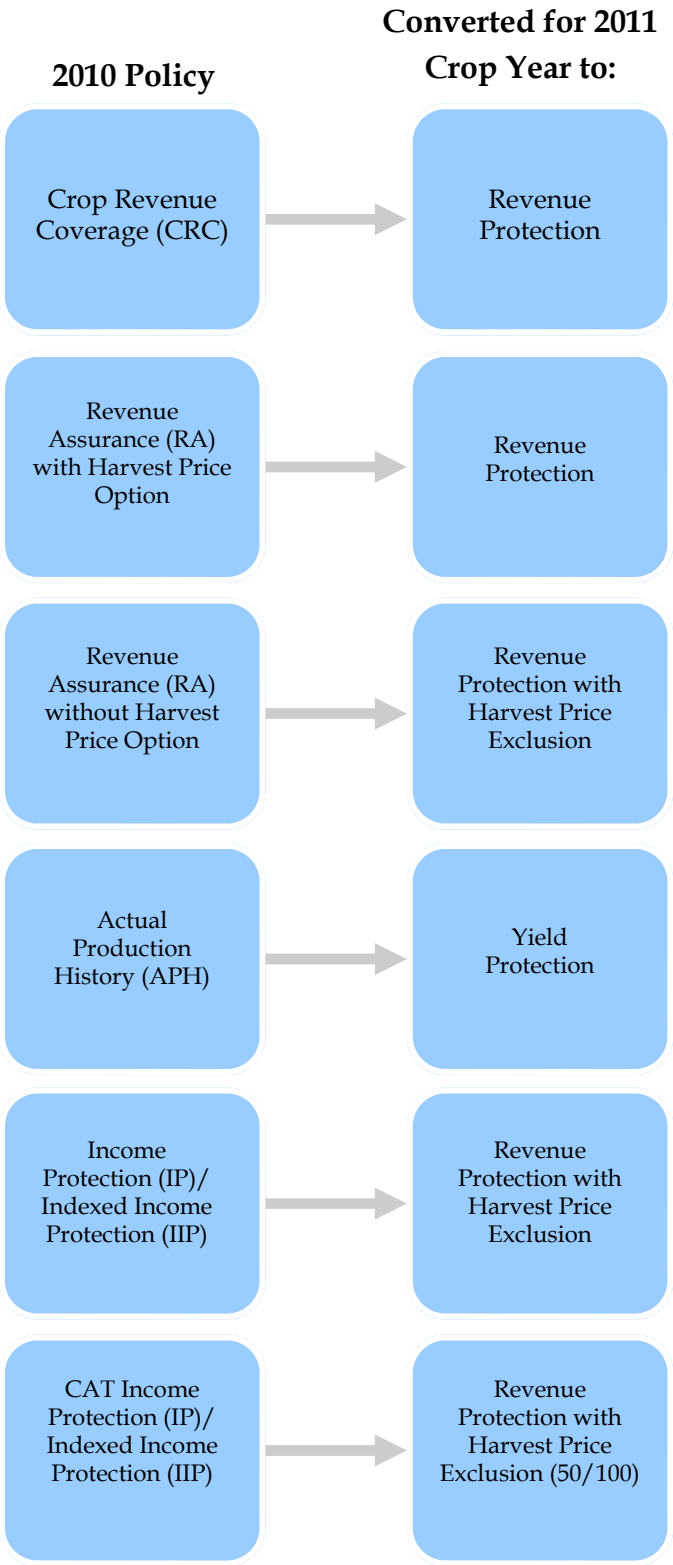
Figure 2: Crop Insurance Conversions



Yield Protection

Yield Protection (YP) will guarantee yields based on your Actual Production History or APH. No changes have been made to how APH is calculated, but the price is the same as what is used for revenue protection. The Yield Protection plan will provide protection against losses from natural occurring events such as drought, too much moisture, frost, disease, wildlife, insects, etc. It protects against low yields, late planting, and a poor quality crop. Some of the benefits that come with this plan are a source of guaranteed income when crop yields are low, provides the farm some security, and coverage levels and provisions are available for farmers that have limited availability to capital. This is the lowest cost option as you are only guaranteed a specific yield and are not given any protection against price changes. The price you receive under this plan can change. You will be paid by the policy when your actual yield falls below the guaranteed yield.

Revenue Protection

With Revenue Protection (RP) the producer is able to insure profitability for the business by establishing a price guarantee that can increase if the harvest price is above the projected price. In other words you can insure a minimum amount of revenue per acre. RP is similar to CRC or the RA with the Harvest Price Option. It protects against lower revenues caused by low yields, prices, or possibly both, poor quality, replanting costs, late planting, and weather related losses. The guarantee is the higher of the projected price guarantee or the harvest price guarantee like stated above so if the revenue generated at harvest is less than the final revenue guarantee the policy will pay you. The harvest price is determined from regional commodity exchanges to reflect the market area better. There are various benefits to this plan. It can add security to your operation by providing a solid upside and downside for revenue. RP helps ensure contracts are satisfied when yields are low and is also beneficial when trying to secure operating loans. The draw back to this plan is that it is usually the most expensive to purchase since it allows you to benefit from increased market prices.

Revenue Protection with Harvest Price Exclusion

The Revenue Protection with Harvest Price Exclusion (RPE) plan is very similar to the RP plan and can be compared to the previous Revenue Assurance policy (RA). RPE however does not include the ability to increase the guarantee like with the RP option. Your premiums will be lower with this option but you do not have the ability to

profit from increased market prices. Like RP this option helps insure an operation's profitability as well as protects against the same categories of losses. You will receive payment from the plan when the actual revenue is less that the revenue guarantee.

Conclusions

American farmers and ranchers are an important element of the US economy and food security, so alleviating their exposure to downside risk is important. To give support for them to continue increasing production to meet US and world demand, Crop Insurance can provide a safety net for American Farmers by providing them a means to meet their invested production costs if a disaster were to strike. Without it many would not be able to survive financially if a disaster were to strike.

The Crop Insurance program is partly of value because it addresses the current volatility of input and crop markets, credit tightening, and localized, severe weather events. Crop insurance is constantly evolving to meet the needs of the American producers. Recently, the Risk Management Agency has simplified everything down into one policy that includes Yield and Revenue Protection. This COMBO Policy will provide more simplicity along with a more uniform set of requirements, rating methods, and premium calculations. It also helps eliminate duplicate products and makes everything more concise.

However, this new policy is complex, and like with other plans, it could have unanticipated impacts, both for farmers and their partners in the finance, marketing and supporting agribusiness sectors. In short, these new crop insurance options can be beneficial but it ultimately depends on the characteristics of a specific operation. The trade off between the cost and the benefits of the crop insurance must be analyzed for the specific operation to see if it is worth it or not to purchase.

Sources

-John Deere Crop Insurance-Current Information on Crop Insurance Policies
http://www.deere.com/en_US/crop_insurance/products/multi_peril/index.html
-RMA-Common Crop Insurance Policy
http://www.rma.usda.gov/news/2010/06/combo.pdf
-Iowa State University-The new common crop insurance policy
http://www.extension.iastate.edu/agdm/articles/edwards/EdwDec10.html
-University of Illinois-Farm Doc
http://www.farmdoc.illinois.edu/manage/newsletters/fefo11_04/fefo11_04.html
-Webinar-Gary Schnitkey
http://www.farmdoc.illinois.edu/webinars/cropins_webinars_2011/COMBO_product/player.html

Crop Hail Coverage

Crop Hail Insurance is another great way to add protection to your crop in addition to the Multi Peril Crop Insurance. The other added benefit is that it can be purchased at any time during the year. Here are some things that it protects you from:

- **Fire and lightning damage:** Covers damage before and during harvest and while your crop is in the harvester. This includes crops in small grain stubble.
- **Vandalism and malicious mischief:** Covers damage before and during harvest and while your crop is in the harvester.
- **Fire department service charge:** Pays up to $500 when the fire department is called to save or protect your insured crop.
- **Transit accident:** Limited coverage for crop damage from transit accidents that occur in crop transport from the field to the first place of storage or processing.
- **County blanket:** Insures all acres of your crop in a county.
- **Coverage for substitute crops:** Prior to receipt of the insured's coverage amendments for the subsequent crop year, we will automatically insure your MPCI insurable crop not grown in the previous crop year.
- **Replant payment alternative (Standard Crop-Hail only):** If a qualifying hail event occurs requiring you to replant the crop, you have the option of choosing between indemnification for:
  1. The actual cost to replant, up to 20 percent of the limit of insurance—and no reduction of coverage for the subsequently replanted crop; or
  2. Replanting at your own expense, and collecting an indemnity payment based on the actual original lost crop.
- **Premium waiver for accidental death**:** Payment for loss of life by accidental means while carrying out work related to your farming operation.
- **Stored crop coverage (Standard Crop-Hail only):** Covers injury, deterioration or diminution of harvested grain while in storage when caused by events such as fire, hail, windstorm or flooding.

—John Deer Crop Insurance http://www.deere.com/en_US/crop_insurance/products/private/crop_hail.html

Other Resources:

—John Deere Crop Insurance
http://www.deere.com/en_US/crop_insurance/products/multi_peril/index.html
—RMA Crop Insurance Provider List
http://www3.rma.usda.gov/tools/agents/companies/indexCI.cfm
—RMA Premium Calculator
http://www.rma.usda.gov/tools/premcalc.html
—Crop Insurance in America
http://www.cropinsuranceinamerica.org/crop-insurance-resources/index.php
—National Crop Insurance Services
http://www.ag-risk.org/
—Farm Credit Services of America
http://www.cropinsurancespecialists.com/default.aspx
—House Ag Committee
http://agriculture.house.gov/
—Texas A&M –The Agricultural and Food Policy Center
http://www.afpc.tamu.edu/
—University of Illinois-Farm Doc
http://www.farmdoc.illinois.edu/manage/newsletters/fefo11_04/fefo11_04.html

If you have further questions about the changes and how it will affect your operation it is best to contact your crop insurance agent.

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