Risk Management Tools:
Crop Insurance Overview

A World Of Information

National Crop Insurance Services

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Today's Discussion

- Who is NCIS, & why on the program
- Structure of crop insurance industry and delivery system
- Roles of various players
- Terminology and products

Who is NCIS?

- National Crop Insurance Services
- Not-for-profit crop insurance industry trade association
- Members are crop insurance companies
  - SRA holders (MP crop insurance companies)
  - 97% of all Crop Hail policies are written by an NCIS member company
  - International insurance and reinsurance companies
- Licensed statistical agent

Why Is NCIS on the Program?

- We (crop insurance industry) take very seriously the responsibility we have as the delivery system for the Federal crop insurance program.

- Recognize the value of working with others/educators in providing objective educational information.

Why Would Farmers Want Insurance?

- **Protection against losses due to natural disasters**
- **Facilitates business planning**
- **Loan security**
- **Forward market crops with assurance**

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Insurance Principles

- Insurance is the pooling/combining of enough small unpredictable risks so that over time the losses for the combined group become statistically predictable.
- Basic purpose of insurance is to provide protection against economic loss arising from adverse events.

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Insurance Principles

To be insurable, risks must meet this criteria:

- Loss would result in economic hardship.
- Sufficient number/quality of units must be exposed to the same peril.
- Occurrences must be accidental/unintentional.
- Definite in time/place and measurable with reasonable accuracy.

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Why a Government Program?

- Weather tends to impact a large area
- Losses are correlated, insurance works best when losses are not correlated
- Without federal subsidies premiums would be too high for most farmers to participate
- Without federal reinsurance, federal capital requirements would be too high for most companies to participate

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Basic Components of the Program

Farmers

Insurance Sales Agents
(Most agents work for more than one company)
Responsible for Sales and Premium Collection of the Farmer-paid Portion

Private Insurance Companies
Responsible for Reinsurance and Delivery of the Program
Contribute to Policy Development

Federal Crop Insurance Corporation (FCIC)
(Managed by USDA/RMA)
Responsible for Policy Development, Rating, Reinsurance, and Administrative Expense Support
(as negotiated and contracted by the Standard Reinsurance Agreement)

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What Does the Federal Government Do?

- Subsidize insurance
  - Pay delivery reimbursement
  - Pay premium subsidy
  - Offer reinsurance
- Set rates
- Establish insurance policy provisions
- Regulate the insurance companies

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Crop Insurance

2002 Subsidy Schedule

Coverage Level	Subsidy %	Producer Premium %
CAT—50/55	100	0
50/100	67	33
55/100	64	36
60/100	64	36
65/100	59	41
70/100	59	41
75/100	55	45
80/100	48	52
85/100	38	62

Risk Management Agency

- Administers Federal Crop Insurance Act for Board of Directors of FCIC
- Headquartered in DC, major presence in Kansas City
- Ten Regional Offices
- Six Compliance Field Offices

What Does the Company Do?

- Insures farmer
- Processes all paperwork
- Contracts agents and loss adjusters
- Ensures all claims are fairly and promptly paid
- Accepts risk on the insurance policies
- Interacts with RMA/Agents/Farmers

Approved Insurance Providers in FL

- AgriServe Inc.
  800-500-2836 www.asi-agriserve.com
- ARMtech Insurance Services
  800-335-0120 www.armt.comwww.armt.com
- CGB Diversified Services
  888-214-1184 www.diversifiedservices.com
- Crop1 Insurance
  866-765-0552 www.crop1insurance.com

Approved Insurance Providers in FL

- Great American Insurance Company
  877.4.AGLINK www.MyAgritrust.com
- John Deere Risk Protection Inc.
  866.404.9057 www.johndeereriskinsurance.com
- Producers Ag Insurance Group
  800.366.2767 www.proag.com
- Rain and Hail L.L.C.
  800.776.4045 www.rainhail.com
- Rural Community Insurance Services
  800.451.3836 www.rcis.com

Crop Insurance for Nursery

- Business must derive at least 50% of its gross income from the wholesale marketing of plants (on a per county basis)
- Provides coverage for both container and field grown plants
- Plants are insurable if they are listed on the “Eligible Plant Listing” and meet hardiness zone requirements

Crop Insurance for Nursery

- The Eligible Plant List and Plant Price Schedule (EPL/PPS) is available on CD and at http://www.rma.usda.gov/tools/
- Used to establish insurability, liability and indemnities
  - Provides maximum plant prices by type, practice, and size
  - Identifies insurable plants by name and type

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Crop Insurance for Nursery

- Assigns hardiness zones for listed plants
- Provides storage keys defining over-wintering requirements for listed container plants
- Designates hardiness zones by county
- Designates plants according to plant types and two production practices
  - Field grown
  - Container grown

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Crop Insurance for Nursery

- Insured must provide two copies of their current wholesale plant catalogue or price list each year as a condition of insurance
  - Name, address, phone number of nursery
  - Each plant's name (scientific or common), sizes, and wholesale prices
- Insured must use the lower of the EPL/PPS or their lowest wholesale price in establishing plant inventory value.

Crop Insurance for Nursery

- Practices (field grown, container grown) are considered separate crops
  - May insure one practice/crop and not the other
  - May insure one practice/crop at the CAT level and the other at the Buy-up level

Crop Insurance for Nursery

- Catastrophic (CAT) Coverage (50/55)
  - Provides coverage at 50% of your insurable inventory and 55% of either, the lesser of your wholesale price or the price listed on the “Plant Price Schedule”
- Buy-up Coverage
  - Levels vary from 50-75% (5% increments) of your insurable plant inventory at 100% of either the lesser of your wholesale price or the price listed on the “Plant Price Schedule”

Nursery Insurance Units

- An insurance unit is the value of the insurable inventory that will be considered for claim calculation.
- There are two types of units:
  - Basic—by practice and share
  - Additional Basic—by plant type
  - Optional units are no longer available.
- For CAT Coverage
  - A basic unit will consist of all insurable plants, by practice (container and field grown), in which you have a share in the county.

Nursery Insurance Units

– For Buy-up Coverage
  - A basic unit is by practice/crop (container and field grown) and share; therefore allowing the practices and shares to be adjusted separately in the event of a loss.
  - Additional basic units can be established for each insurable plant type. Therefore, you do not have to meet the deductible for the entire practice before a loss payment is triggered—only the deductible for that specific plant type.
  - Coverage levels can be selected on an additional basic unit basis.

Nursery Insurance Units

– Buy-up coverage basic units by plant type:
1. Deciduous trees (shade and flower)
2. Broadleaf evergreen trees
3. Coniferous evergreen trees
4. Fruit and nut trees
5. Deciduous shrubs
6. Broadleaf evergreen shrubs
7. Coniferous evergreen shrubs
8. Small fruits
9. Herbaceous perennials
10. Roses
11. Ground cover and vines
12. Annuals
13. Foliage
14. Palms and cycads
15. Liners (cont. grown only & inclusive of all insurable plant types)
16. Other plant types as listed in the Special Provisions

Nursery Insurance
Peak Inventory Endorsement

- Provides coverage for additional values as a result of increases in inventory, for example leading up to holidays, spring sales, etc., without paying a full year's premium.
- Allows you to pay a premium on a declared additional value only for a specified period.
- Limited to one period per crop year per practice (container, field grown) and plant type
- In event of a loss (and restocking) you may purchase an additional Peak inventory Endorsement

Nursery Insurance
Rehabilitation Endorsement

- Provides coverage for rehabilitating field grown plants that have been damaged by an insurable cause of loss. Limited to expenditures for labor and materials for pruning and setup (righting, propping, staking).
- To be eligible for payment plants must have a reasonable expectation of recovery (type and extent of damage?, recover to point of marketability?)
- Must elect this endorsement at time of application
- Only available for buy-up coverage (not CAT)
- Deductibles incurred are not applied to underlying nursery policy
- Payments made are not considered a previous loss when determining under-report factor

Nursery Insurance Dates

- Insurance year runs from June 1 to May 31, and is a continuous policy (unless cancelled by May 31).
- Coverage may end earlier in the event that all plant material is removed from the field or nursery or when total indemnities due equal the amount of insurance.
- No changes to your existing policy will be accepted after May 1 (Sales Closing Date).
- <u>New</u> policy applications may be filed at any time subject to a 30 day waiting period.

Agent Delivery System

- All crop insurance is sold by private insurance agents who:
  - Are the company representative with the insured.
  - May represent multiple companies.
  - Are responsible to educate producer about products.
  - Are compensated by a percentage of premium.
- Agent training requirements:
  - State licensing requirements by insurance department including annual continuing education hours.
  - Additional RMA requirements to sell Federal products.
  - Competency testing every three years.

What Does the Agent Do?

- **Explains product options—quotes price**
- **Sells insurance contract**
- **Collects Plant Inventory Value Report (PIVR)**
- **Notifies company in case of loss**
- **Informs grower about changes to the program**
- **Primary contact for the grower**

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What Does the Adjuster do?

- Fact finding/data collection role.
  - Gather appropriate information.
- Visits the nursery and physically appraises crop damage.
- Follows established procedures for determining extent of damage.
- Documents grower provided data.
- Assists policyholder in filing a claim for indemnity.

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Producer Obligations

- Report required information accurately.
- Meet policy deadlines.
- Pay premiums when due.
- Report losses immediately.

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Mistakes That Cost You Money

Insurance mistakes that cost money:

- Under-reporting inventory per unit.
- Over-reporting inventory per unit.
- Harvesting the crop in a manner other than insured.
- Destroying the insured crop without company consent.

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How Does A Grower Get Insurance?

- **Crop insurance is a contractual agreement between the grower and an insurance company brokered by an insurance agent**
- **Contacts an insurance agent who has a contractual relationship with an insurance company to sell crop insurance**

How Does a Grower Select an Agent?

Q: Why do you select one agent over another?

A: Service!!!

Components of Good Agent Service

1. Product Knowledge
   Knows what products are available and protection they offer
2. Provides Guidance
   Helps find best product/nursery fit
3. Sends Reminders
   Helps insured meet deadlines and policy requirements
4. Available for Assistance
   Available to answer questions and provide assistance
5. Provide Gap Measures
   Goes the extra mile

Finding An Agent

- Ask other growers for recommendation.
- Check with insurance agency where you purchase other types of insurance.
- Check with other organizations you have a relationship with.
- Check insurance providers' websites.
- Use the USDA Risk Management Agency's Web site's "Agent Locator."

www.rma.usda.gov