Protecting Your Profit Margins in an Unstable Market

Crop Insurance 101
February 17, 2016

Who am I?

Crop Insurance Footprint
- 2.5 million acres insured
- 50+ dedicated crop insurance specialists
- 7,500 policies overseen
- AgriBank district (15 states) writes more than $1 billion in premiums

Farm Credit Mid-America

Audience Participation

AGENDA
- What is Crop Insurance
- Example
- Marketing Your Grain
- Using CI
- Private Products
- Your Agent
- FC Approach
- Conclusion
What is Crop Insurance?

Start with the Basics

- RP or Revenue Protection:
  - Plan that protects both yield loss and revenue loss from drop in commodity prices.
  - Most popular choice due to providing the most coverage
- YP or Yield Protection
  - ARP Or Area Risk Protection (replaces the old GRP and GRIP)
  - Based on County Averages and not Individual Farmer Yields
  - Not available in every county
- CROP HAIL BUNDLE:
  - You choose the dollar amount of coverage per acre.
  - Coverage starts at 1% of damage
  - Includes: Fire, Transport, Vandalism, Greensnap and Replant in addition to hail.

Unit Structure

BU-Basic Unit
- Farmer simply has 1 single FSN (farm serial number)

OU-Optional Unit
- Farmer can have several FSN’s, but optional unit separates each one out into its own individual unit. Each farm carries its own risks.
- Great option for FSN’s that are grown under different practices such as irrigated and non-irrigated.

EU-Enterprise Unit
- Farmer groups 2 or more FSN’s together by county and crop
- TO QUALIFY: must have at least 2 FSN’s of at least 20 acres each or 20% of the total production per crop per county.
- Spreads risk across all production

Your Crop Insurance

Start with the Basics

- RP or Revenue Protection:
  - Step 1. Determine your yield:
    - Your APH (actual production history) X Coverage level = guarantee bu.
    - 150 bu (aph) X 80% (coverage level) = 120 bu (guaranteed bu.)
  - Step 2. Determine your Revenue Guarantee;
    - Your guarantee bu. X Spring Projected price = Revenue Guarantee
    - 120 bu (guaranteed bu.) X $4.00 = $480.00 (revenue guarantee)
- $4.00 may be the projected Spring price for 2016
RP Example
How does that 120 bu. Revenue Guarantee work?
*Yield loss scenario
- your actual yield comes in at 100bu/acre
- loss of 20 bu/acre paid back at the higher price

2016 Spring price $4.00 (Feb) Harvest price $3.50 (Oct)
120bu X 4.00 = $480.00 Spring Revenue Guarantee
100bu harvested X 3.50 fall price = $350.00
$480.00 - $350.00 = $130.00 estimated claim amount/acre

What's it worth?
A lot of Skepticism with Crop Insurance
Input/Acre Guarantee/Acre
Corn Crop Inputs (seed, chemicals, fertilizer) $350 $0
Machinery Costs/Diesel $145 $0
Land Value $100 and up! $0
Total: $595 $0
Crop Insurance @ 85% $47.00 $495.00
@ 80% $49.00 $465.00
@ 75% $50.00 $435.00

Crop Insurance as Risk Management Tool
- Protects revenue
- Preserves key financials:
  - Liquidity – solvency – working capital
- An integral part of a producer's overall management plan
- Crop insurance costs per acre likely is the best investment a producer can have in terms of operating expenses

Crop Insurance Today
**Forward Contract**

Contracted Bushels: 100

`$3.85 Dec Basis`

Produced above contracts: 100

`$2.70 3.00 (0.30)`

**Harvest Yield**

200

`$0.00` Forward sell extra bu

**Insurance Guarantee**

Feb. Insurance

`$680` 170

`$4.00`

**Insurance Revenue**

Oct. Insurance

`$600`

**Harvest Yields x Harvest Price**

`$80`

**Insurance Payment**

Grain Revenue

`$655`

`$80`

**TTL Rev**

Total cost per acre

`$675`

**Profit**

`$60 Per Acre`  

**Corn Totals**

Land cost

`$250`

Net

`$250`

Farming Expenses

Equipment

`$50`

Fertilizer

`$150`

Seed

`$125`

Chemical/fung

`$45`

Crop Insurance

`$35`

Interest/misc

`$20`

Variable

`$425`

**Land cost**

`$250`

**Total Expense**

`$675`

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**Additional Help**

- Private Products

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**Your Crop Insurance Agent**

Concern to address:

- Agent Knowledge
- Attentiveness
- Availability
- Customer Service
- Tech Support
- Risk Management Options
- Accuracy
- Quick Claims Process

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**Farm Credit’s Approach to Success**

- Longstanding focus on customer value
- Investments in developing expertise and understanding unique needs of customer operations
- Appropriate products and services-non-commissioned
- Expanded use of mobile technology and sophisticated tools
- Integrated team selling approach

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**Conclusion**

- Choose a provider who can provide visibility into your entire financial situation
- Work to determine how risk management tools like operating loans and crop insurance can work best for your operation together
- Communicate openly with your provider on present and future plans
- Enlist a complete team of experts for insight into your entire operation
Questions?

Thank You