

# **Common Crop Insurance Policy**

**2011 Crop Year**

# Common Crop Insurance Policy

- An initiative by the Risk Management Agency (RMA) to combine and simplify the crop insurance program
- RMA has combined Crop Revenue Coverage (CRC), Revenue Assurance (RA), Income Protection (IP), and Indexed Income Protection (IIP) into a single uniform policy
- RMA kept and combined the principle features of the five plans that producers bought most often
- RMA developed a single rating and pricing component so all insurance coverage is consistent in insurance protection and cost to producers

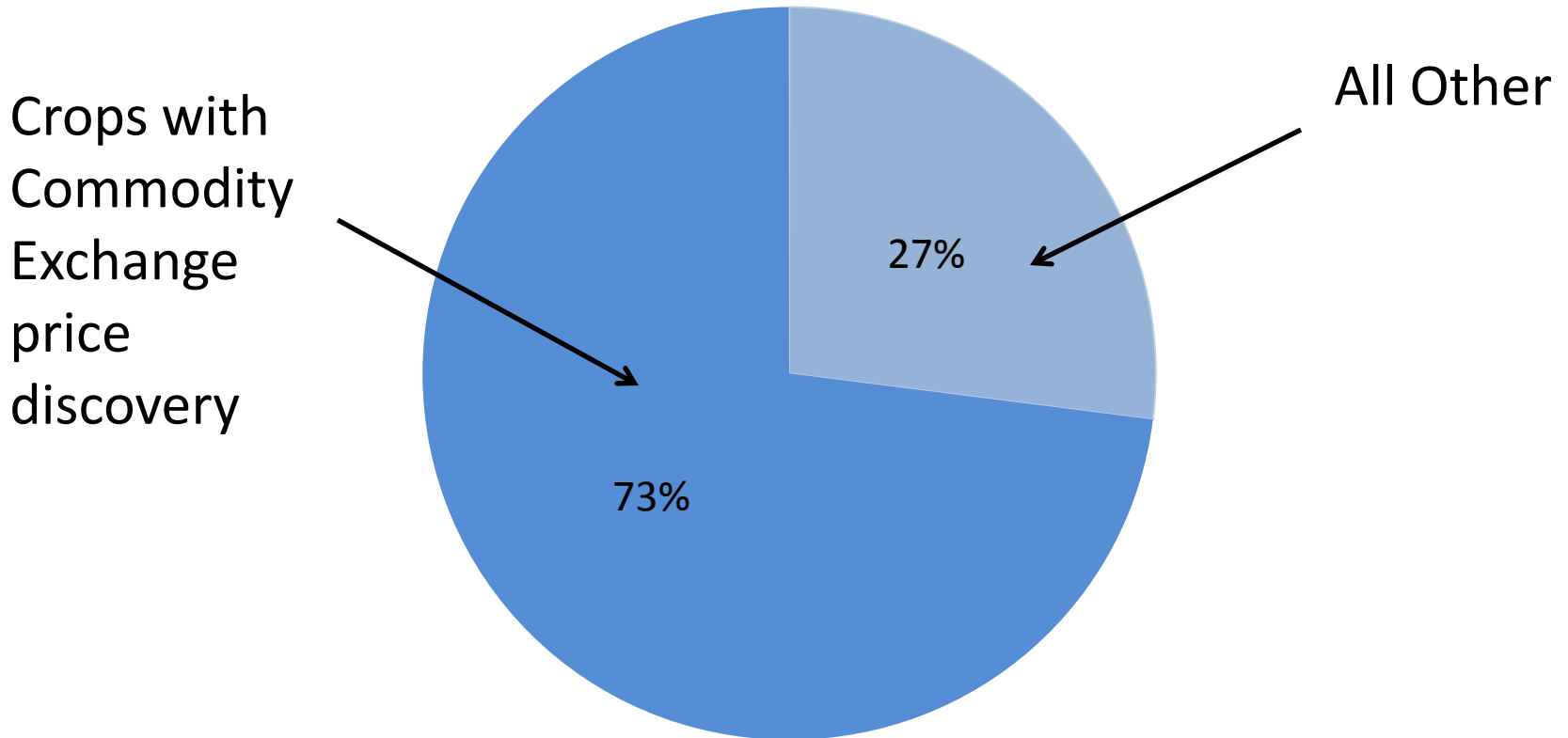
# Revised Basic Provisions

- One Basic Provisions now provides for the following plans of insurance:
  - Yield Protection (Crops with Commodity Exchange price discovery)
  - Revenue Protection
  - Revenue Protection with Harvest Price Exclusion
  - Actual Production History (Crops with no Commodity Exchange price discovery)
  - Dollar Plans

# Yield & Revenue Policies Combined

- Yield Protection or Revenue Protection is available for the following crops for 2011:
  - Corn
  - Cotton
  - Rice
  - Canola/Rapeseed
  - Sunflower
  - Wheat
  - Grain Sorghum
  - Soybean
  - Barley
  - Malting Barley
- These crops with Commodity Exchange price discovery make up a significant portion of the Federal crop insurance program

# Summary of Business



Total Liability = \$89.9 billion  
Most Affected Crops = \$65.8 billion

# Yield Protection

- Yield Protection plan of insurance replaces APH plan of insurance with crops with Commodity Exchange price discovery
- Uses Protected Price to determine insurance coverage
- Crops with Revenue and Yield Protection will **NOT** have an RMA established price election

# Revenue Protection

- Revenue Protection
  - Guarantee based on the higher of the projected or harvest price (similar to CRC or RA with Harvest Price Option)
- Revenue Protection with Harvest Price Exclusion
  - Guarantee based on the projected price only (similar to RA without Harvest Price Option)

# Plans other than Yield & Revenue Protection (APH or Dollar Plans)

- Other plans will be affected by certain changes in the new Basic Provisions not specifically related to yield and revenue protection
- APH (crops with no Commodity Exchange price discovery) will continue to have established and additional price elections
- Dollar plans continue to allow the insured to select a percent of the maximum dollar amount



# Commodity Exchange Price Provisions (CEPP)

- CEPP provides the method for calculating projected and harvest prices
- CEPP applies to the following insurance plans:
  - Revenue Protection
  - Revenue Protection with Harvest Price Exclusion
  - Yield Protection (Crops with Commodity Exchange price discovery)

# Price Discovery

## Commodity Exchange Price Provision

Crop Insured	Exchange Used	Commodity Used	Contract Month	Projected Price Avg Daily Close	Harvest Price <sup>1</sup> Avg Daily Close
Barley	CBOT	Corn	September	February <sup>2</sup>	July <sup>2</sup>
Canola	ICE	Canola	November	February <sup>3</sup>	September <sup>3</sup>
Corn	CBOT	Corn	December	February	October
Soybeans	CBOT	Soybeans	November	February	October
Sunflower	CBOT	Soy Oil	December	February <sup>4</sup>	October <sup>4</sup>
Spring Wheat	MGE	HRSW	September	February	August
Durum <sup>5</sup>					

- 1) Harvest price has upper limit of two times projected price
- 2) Multiplied by factor determined by RMA
- 3) Quotes in Canadian dollars per metric ton are converted to U.S. dollars per pound
- 4) Divide each settlement price by two and add one cent
- 5) Same as spring wheat but multiplied by a factor determined by RMA

# Website Location

<http://www.rma.usda.gov/policies/combo.html>



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## Crop Policies and Pilots

### Common Crop Insurance Policy



The new Common Crop Insurance Policy Basic Provisions (11-br) combines: 1) the Common Crop Insurance Policy Basic Provisions (05-br) and associated amendments, 2) Crop Revenue Coverage (CRC), 3) Revenue Assurance (RA), 4) Income Protection (IP), and 5) Indexed Income Protection (IIP) for the 2011 crop year for all crops with a 2011 crop year contract change date on or after 4/30/2010. The Common Crop Insurance Policy Basic Provisions (05-BR), and

its associated amendments, will continue to apply for the 2011 crop year for all crops with a 2011 crop year contract change date prior to 4/30/2010. To determine which Basic Provisions apply, see the footnotes on the 2011 Crop Policies page.

Crops previously covered under CRC, RA, IP, and IIP have both Yield Protection and Revenue Protection under the new Common Crop Insurance Policy Basic Provisions (11-br), and prices for these crops are calculated in accordance with the Commodity Exchange Price Provisions.

#### 2011 Common Crop Policy

##### Basic Provisions:

- Common Crop Insurance Policy, Basic Provisions (11-br).
- Common Crop Insurance Policy, Basic Provisions (05-br). With:
  - Enterprise Unit Amendment (10-enterprise-unit). Footnote 1.
  - Farm Bill (10-farm-bill) Amendment. Footnote 2.
  - Farm Bill Amendment (09-farm-bill). Footnote 3.
  - Sanctions Amendment (09-sanctions). Footnote 4.
  - Written Agreement Amendment (07-written-agreement). Footnote 5.

##### Endorsements:

- Actual Revenue History (ARH) Pilot Endorsement (09-arh).
- Catastrophic Risk Protection Endorsement (09cat-4). Footnote 6.
- Quarantine Endorsement Pilot (11-qe).

##### Commodity Exchange Price Provisions:

- CEPP Part I-General Information (11-cepp) (Apr 2010).
- CEPP Part II-Specific Crop (11-cepp2) (Apr 2010).

# Price Discovery on the Web

<http://www.rma.usda.gov/tools/pricediscovery.html>

**USDA** United States Department of Agriculture  
**Risk Management Agency**

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## Information Browser

### Price Discovery Reporting

Displays price information for crops covered by Crop Revenue Coverage (CRC) and Revenue Assurance (RA). Prices are accumulated and displayed daily during the price discovery periods outlined by the terms of these insurance contracts. Final approved prices are indicated at the conclusion of each discovery period.

Price Discovery Reporting:

- Active Discovery Periods
- Commodities Recently in Discovery
- Daily Prices for Your Location

For more information, contact Chris Aulbur.

**Crops currently in discovery**

**Crops recently in discovery**

**Selectable daily prices by year, crop, plan, and state**

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# New Premium Calculations for Revenue Protection

- Methodology resembles more aspects of RA than CRC
  - Simulation based model
  - Assumes price/yield correlation derived for historical data
  - Implied volatility from options market determines level of revenue/price risk for current year
- Resulting premium charged more closely reflects CRC
  - Uses empirical coverage level rate relativities (APH/CRC) versus relativities implied by assumed distribution (RA)
  - Harvest price discovery periods more reflective of normal harvest periods (CRC), typically reducing price volatility
  - Simulated revenue portion of risk reflects an add-on rate that is applied as a fixed load to the yield coverage rate versus a proportional load

## Corn - Example Premium Calculation Estimates Based on Crop Year 2010

### McLean, Illinois - Non-Irrigated Corn - Optional Unit

#### Inputs

Yield	180
Acreage	80
Coverage Level	75%
Price	\$ 3.99
Price Volatility	0.26*
Liability	\$ 43,092
Liability/Acre	\$ 538.65

#### Results

Standard Premium	RA-HPO*	CRC	New
Total Premium	\$ 3,378	\$ 2,407	\$ 2,144
per acre	\$ 42.23	\$ 30.09	\$ 26.80
Producer Premium	\$ 1,520	\$ 1,083	\$ 965
per acre	\$ 19.00	\$ 13.54	\$ 12.06

\*RA Volatility was set at 0.28 for 2010 which is used in the RA-HPO calculation. Under the new policy, harvest price discovery will change from November to October (same as that used for CRC), which has the impact of reducing volatility to 0.26 which is used in the "New" calculation.

# General Benefits

- Simplified
  - One Basic Provisions instead of 3 (APH/CRC/RA)
  - One set of Actuarial Documents instead of 5
  - One Projected Price based on CEPP
- Uniform
  - Policy Acceptance System Requirements
  - Rating Methodology
  - Premium Calculation
  - Price Discovery

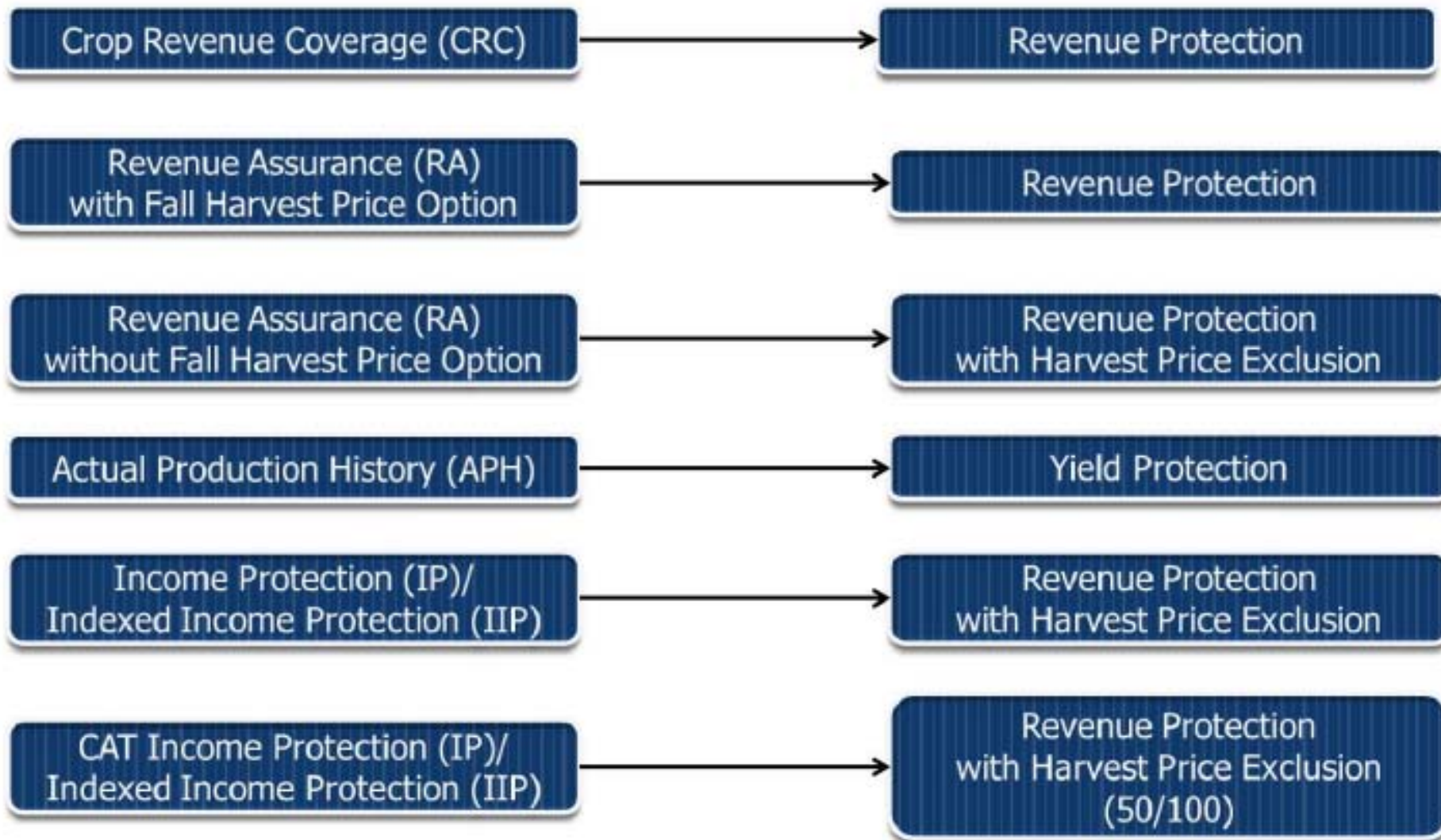
# Policy Conversion

- For the 2011 crop year CRC, RA, IP, IIP, and APH plans of insurance will automatically be converted to the plan closest to the current coverage for the following crops:
  - Corn
  - Cotton
  - Rice
  - Canola/Rapeseed
  - Sunflower
  - Wheat
  - Grain Sorghum
  - Soybean
  - Barley
  - Malting Barley
- Note: The conversion chart on the following page applies to the above listed crops only



## 2010 Policy

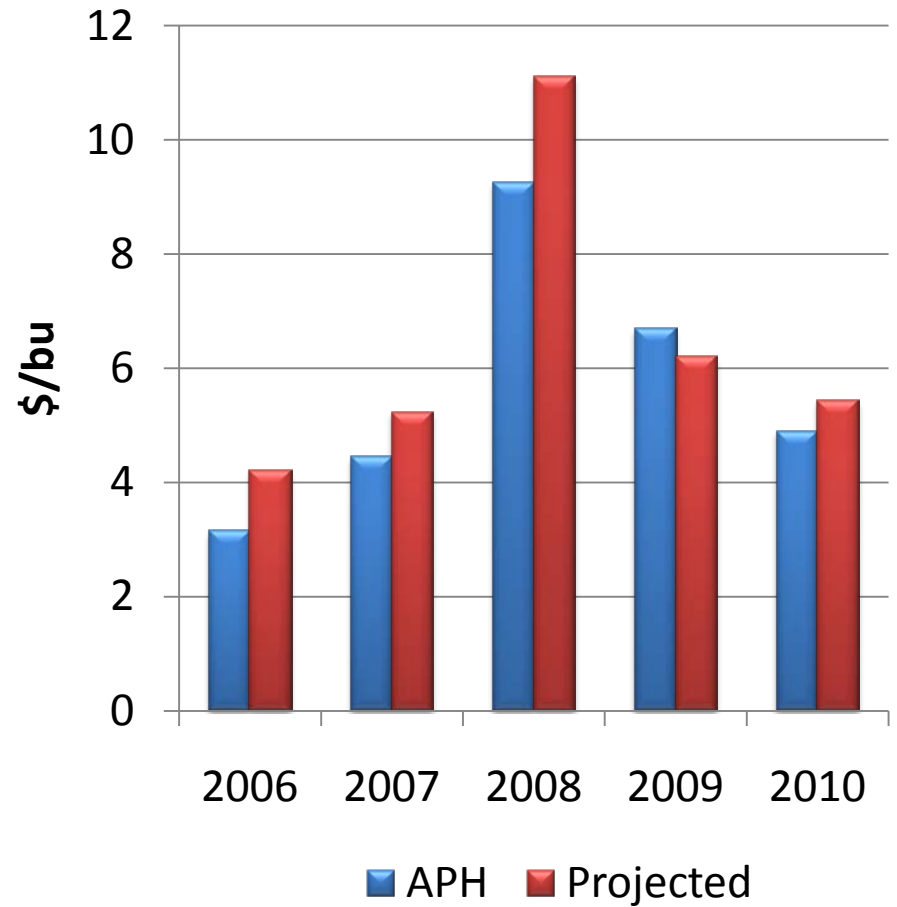
## Converted for 2011 Crop Year to:



- The “APH” crop insurance policy will be replaced with the Yield Protection plan for crops with commodity exchange price discovery
- The insured price for Yield Protection plans will be the same as the projected price for the Revenue Protection plans
- In general, this maybe a price positive change because past APH prices often were lower than the projected price of revenue insurance.

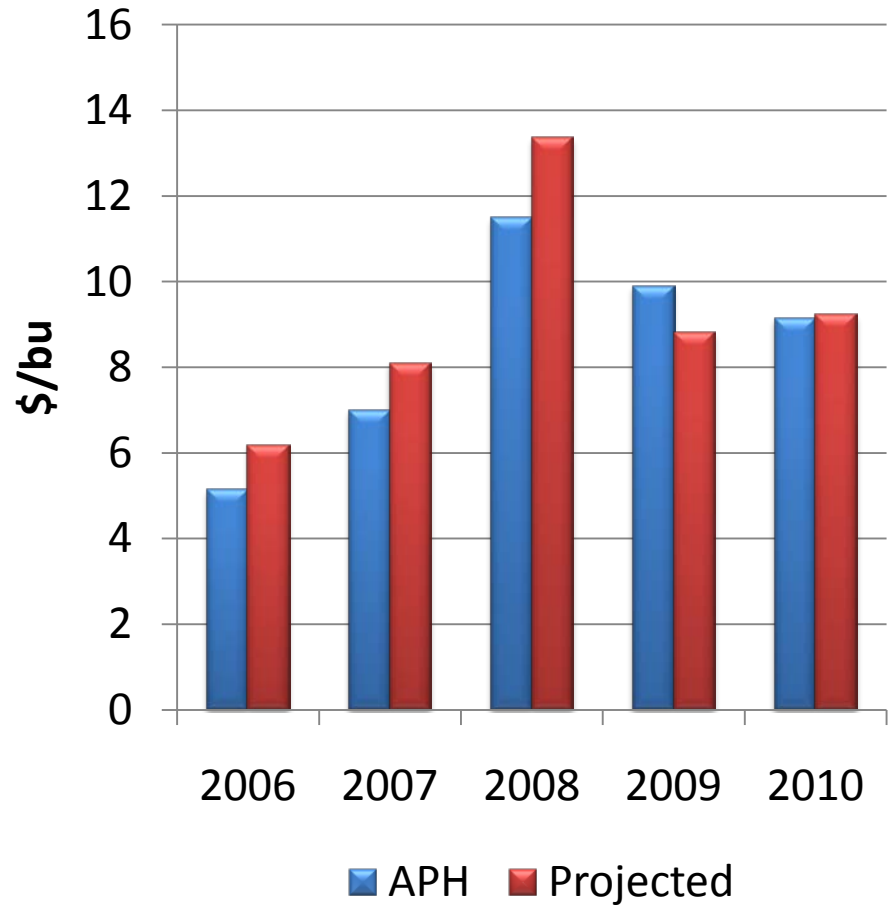
# HRSW Crop Insurance Prices

	APH	RA Projected	Difference
2006	3.15	4.22	34%
2007	4.45	5.23	18%
2008	9.25	11.11	20%
2009	6.70	6.20	-7%
2010	4.90	5.43	11%



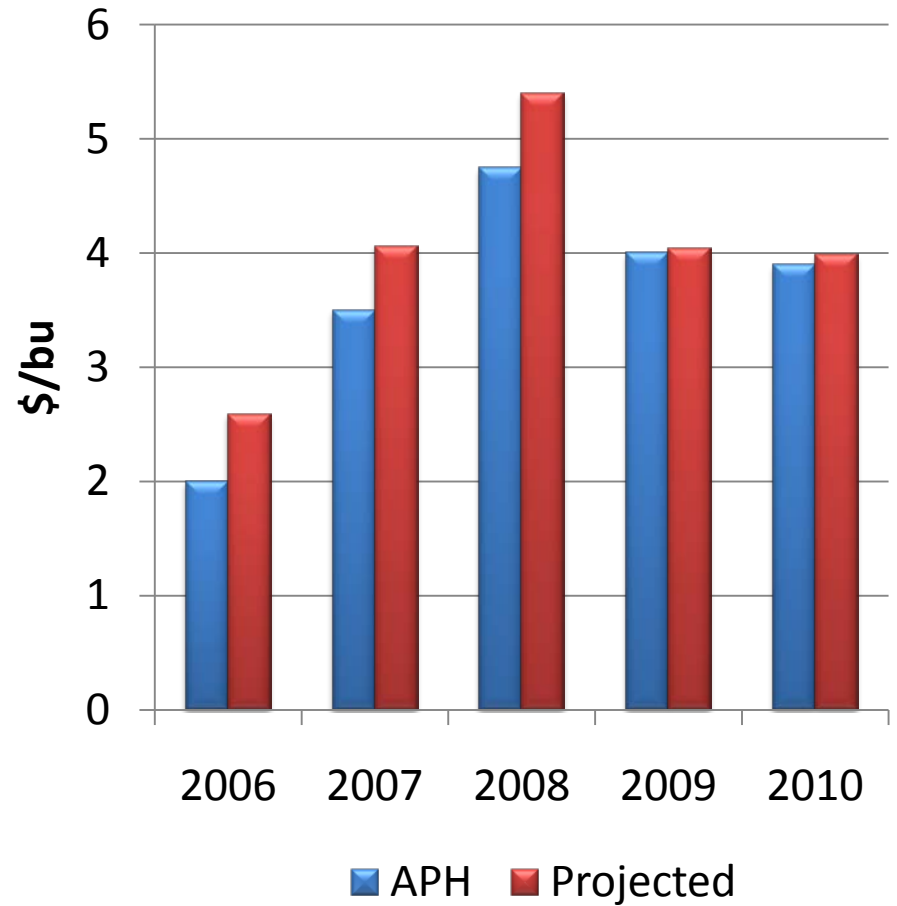
# Soybean Crop Insurance Prices

	APH	RA Projected	Difference
2006	5.15	6.18	20%
2007	7.00	8.09	16%
2008	11.50	13.36	16%
2009	9.90	8.80	-11%
2010	9.15	9.23	1%



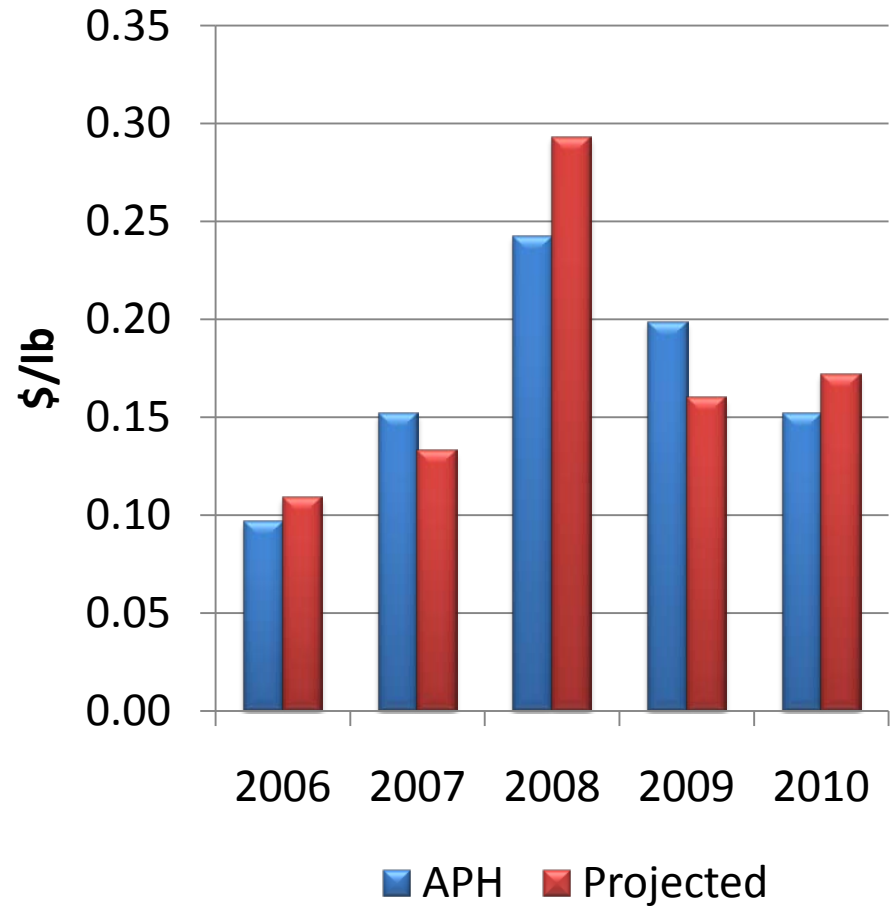
# Corn Crop Insurance Prices

	APH	RA Projected	Difference
2006	2.00	2.59	30%
2007	3.50	4.06	16%
2008	4.75	5.40	14%
2009	4.00	4.04	1%
2010	3.90	3.99	2%



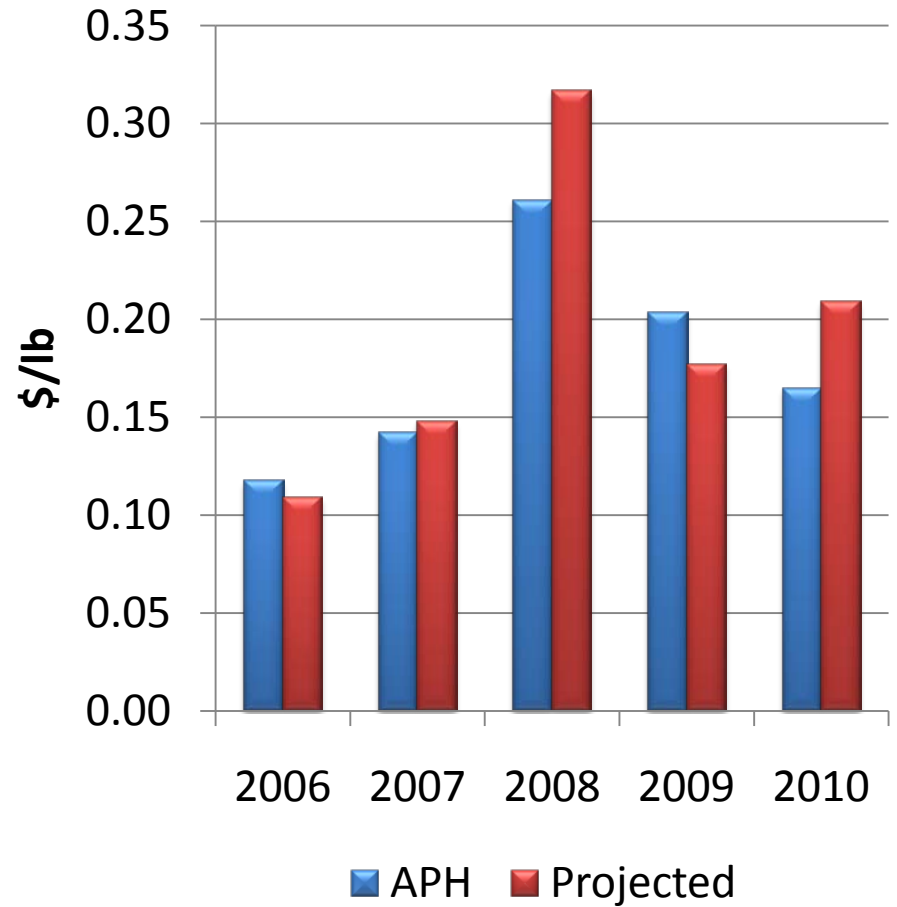
# Canola Crop Insurance Prices

	APH	RA Projected	Difference
2006	0.097	0.109	13%
2007	0.152	0.133	-13%
2008	0.242	0.293	21%
2009	0.199	0.160	-19%
2010	0.152	0.172	13%



# Sunflower Oil Crop Insurance Prices

	APH	RA Projected	Difference
2006	0.118	0.109	-7%
2007	0.142	0.148	4%
2008	0.261	0.317	21%
2009	0.204	0.177	-13%
2010	0.165	0.209	27%



# Durum Crop Insurance Prices

	APH	RA Projected	Difference
2006	3.22	4.22	31%
2007	4.60	5.23	14%
2008	9.45	11.11	18%
2009	7.65	6.20	-19%
2010	6.20	6.22	0%

