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2007 Crop Insurance Summary

Salt Lake County

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All agricultural producers face recurring risks, significant among them being production risk. Many factors contribute to production risk, including adverse weather conditions such as drought or floods, fires, insects or pests, and disease. These events can devastate a crop, significantly reducing yield and revenue. Since the only way to completely avoid all production risks is to stop producing, successful farmers will seek for ways to mitigate these risks through various management techniques. One risk management tool available to crop producers is the purchase of crop insurance.

Crop insurance policies may be purchased from USDA's Farm Service Agency (NAP policies) or from a commercial firm. A list of sales representatives and policy information is found on the Utah State University Agribusiness webpage (http://extension.usu.edu). NAP policies are not available for crops that are insured by a commercial insurance company. This publication provides an evaluation of commercial policies sold in Salt Lake County.

Crop insurance programs allow farmers to mitigate some of their production risk by shifting it to a third party, the crop insurer. In effect, crop insurance relieves the famer of total responsibility if he suffers a production loss. In the event of a loss, the producer would receive an indemnity payment from the insurer based upon the type and level of crop insurance coverage.

It is important to understand that crop insurance is a risk management tool, not an investment. Indemnity payments are not designed to always "pay," and they only occur when something bad happens. When large losses occur, indemnity payments are made to lower the magnitude of the loss to farmers.

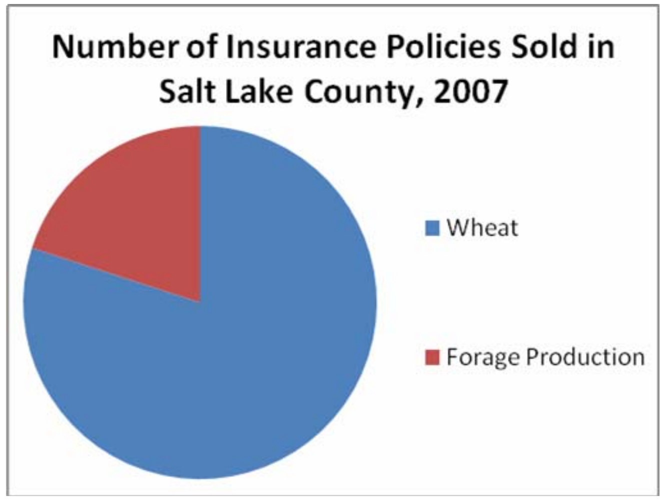
Details about past crop policies in a specific area can help producers in that area better understand the level of the risks they face. For example, if indemnity payments were relatively high for a certain crop in the past, this would suggest the risk associated with growing that crop was high. Past information can also help farmers decide if the cost of the premium is worth the lowered risk from buying a crop insurance policy. The following consists of information concerning crop insurance policies for Salt Lake County designed to aid producers in risk management decisions.

Table 1 provides information specific to each crop including the number of policies purchased by farmers and the total premiums paid. The

Table 1. 2007 Crop Insurance for Salt Lake County

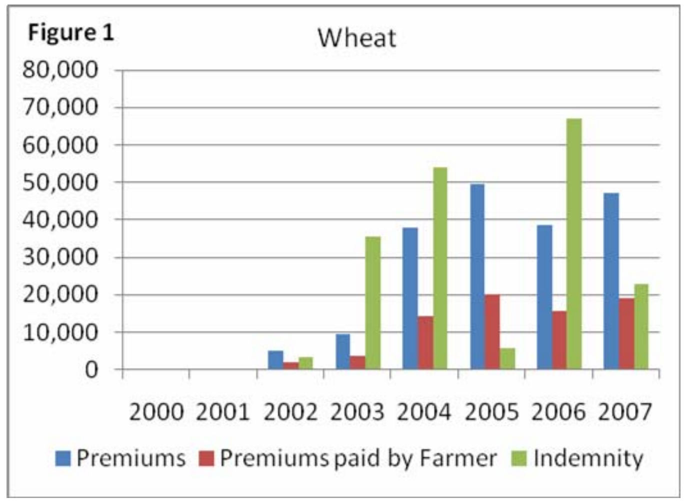
Commodity	Policies Sold	Insured Acres	Liabilities	Total Premium	Premium paid by Farmers	Indemnity	Loss Ratio
Wheat	4	5195	$271,137	$46,925	$19,225	$22,402	0.48
Forage Production	1	21	$3,016	$174	$57	$0	0.00
Total	**5**	**5216**	**$274,153**	**$47,099**	**$19,282**	**$22,402**	**0.48**

federal government has numerous subsidy programs to help agricultural producers, including for the purchase of crop insurance. The amount a policy is subsidized depends on the type and level of coverage. Of particular interest is the loss ratio. It represents the value of the loss, or the indemnity payment value, compared to the total premium value. Ratios above 1.0 indicate that the value of indemnity payments made to farmers exceeded the total value of premiums paid for crop insurance. As outlined in Table 1, no loss ratios for any commodity were greater than 1.0 in 2007. Another important relationship, however, is that between indemnity payments and the portion of premiums paid by farmers. A comparison of these two factors shows that indemnity payments were greater than premiums paid by farmers for wheat in 2007. The discussion below considers these and other factors relating to risk management for specific commodities grown in Salt Lake County.



Wheat

Four of the five crop insurance policies sold in 2007 were for wheat, accounting for 99.6% of total premiums and 100% of total indemnities last year. The number of wheat policies purchased remained the same in 2007 and insured acreage increase slightly.



Of the four wheat policies purchased in 2007, three were at the 65% coverage level and one was at the 50% level. The increase in insured acres occurred at both the 50% and 65% levels. Liabilities and premiums increased in 2007. Indemnity payments, however, decreased over 65% and the loss ratio also dropped. Figure 1 shows that indemnity payments have exceeded premiums paid by farmers five of the past eight years, with quite high indemnity payments some years and relatively low payments other years. Loss ratios have also been quite volatile, reaching a high of 3.74 in 2003 compared to a low of 0.0 in two other years. This volatility combined with high indemnity payments in some years suggest the risk associated with wheat production in Salt Lake County is high and crop insurance policies should be considered to help mitigate some of that risk.

Forage Production

One forage production policy has been purchased for the past two years in Salt Lake County. This policy accounted for only 0.4% of the total premiums, and received no indemnity payments in 2007. 21 forage production acres were insured last year at a 50% coverage level. While policy numbers, coverage level and insured acreage were unchanged from the previous year, liabilities and premiums increase slightly in 2007. Indemnity payments and loss ratios, however, remained at zero, suggesting little risk of an over 50% loss of a forage production crop in Salt Lake County.

The information provided in this publication is general information for to Salt Lake County. It is intended to provide Salt Lake County crop producers with general indicators concerning risk and the use of crop insurance to mitigate risk in the area. To better evaluate individual levels of risk and need for crop insurance, each producer should also consider personal experience with crop loss, ability to bear risk, and risk aversion.

All Utah and Salt Lake County crop insurance information presented in this publication is taken or developed from Risk Management Agency crop insurance data available through their website: www.rma.usda.gov.

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