



# 2007 Crop Insurance Summary

## Uintah 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 Uintah 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 farmer 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 Uintah 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 federal government has numerous subsidy programs to help agricultural producers,

<b>Commodity</b>	<b>Policies Sold</b>	<b>Insured Acres</b>	<b>Liabilities</b>	<b>Total Premium</b>	<b>Premium paid by Farmers</b>	<b>Indemnity</b>	<b>Loss Ratio</b>
Forage Production	24	2154	\$421,956	\$23,957	\$7,040	\$14,667	0.61
Corn	7	1100	\$257,198	\$14,318	\$3,857	\$11,432	0.80
<b>Total</b>	<b>31</b>	<b>3254</b>	<b>\$679,154</b>	<b>\$38,275</b>	<b>\$10,897</b>	<b>\$26,099</b>	<b>0.68</b>

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, the loss ratios did not exceed 1.0 for any commodity grown in Uintah County last year. Another important relationship is that between indemnity payments and the portion of premiums paid by farmers. A comparison of these two factors shows that indemnity payments were higher than premiums paid by farmers for both forage production and corn in 2007. The discussion below considers these and other factors relating to risk management for specific commodities grown in Uintah County.

**Forage Production**

Crop insurance policies for forage production accounted for 77% of policies sold in 2007, almost 63% of total premiums and 56% of indemnity payments. The number of forage production policies decreased 25% respective to 2006 and insured acres also declined by about 37%.

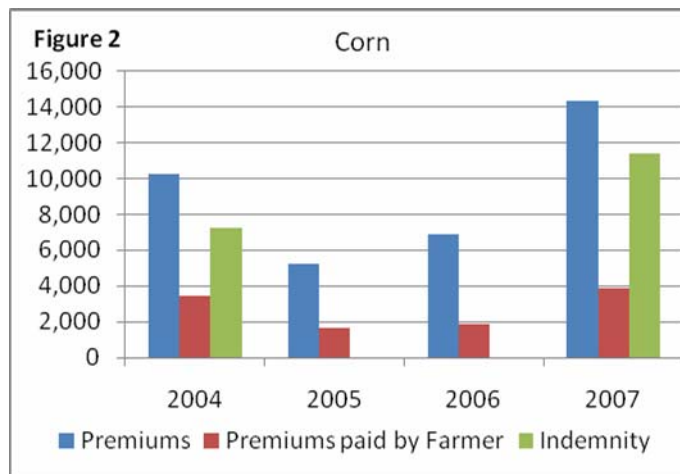
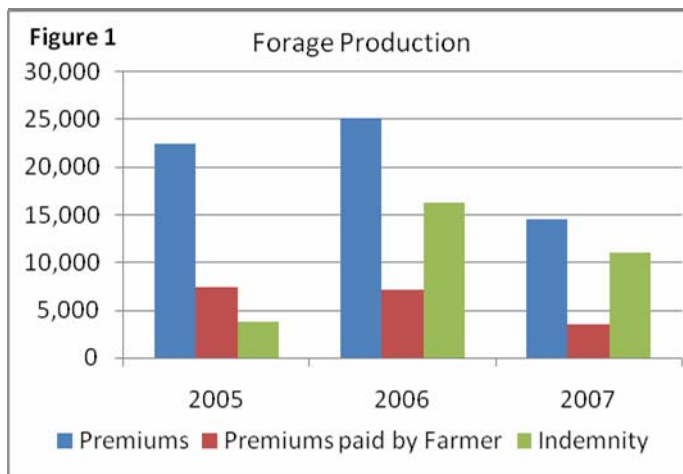
Of the 24 policies purchased last year, 23 were at a 50% coverage level, with the remaining policy at the 65% coverage level. The decrease in policy numbers

occurred at both coverage levels, but the decrease in insured acreage was a result of a decrease at the 50% coverage level—insured acres at the 65% coverage level actually increased in 2007. Liabilities and premiums decreased last year, both by about 43%. Indemnity payments also declined, as shown in figure 1, but the loss ratio increased. Figure 1 also shows that indemnity payment have exceeded premiums paid by farmers for two of the past three years, suggesting relatively high risk associated with forage production in Uintah County.

**Corn**

Corn policies accounted for 23% of total policies sold, 37% of total premiums, and 44% of indemnity payments in Uintah County during 2007. While the number of corn policies declined almost 13%, insured acreage increased over 15% relative to 2006.

All of the seven policies purchased for corn were at the 50% coverage level, similar to the past two years. Given the increase in insured acres, liabilities and premiums increased significantly, as shown in Figure 2. Indemnity payments and the loss ratio, which had remained at zero for the past two years, increased as well. Indemnity payments have exceeded premiums paid by farmers two of the past four years, also shown in the graph. The relatively low coverage level of policies purchased coupled with the sporadic high indemnity payments suggest the risk associated with corn production in Uintah County is fairly high.



The information provided in this publication is general information for Uintah County. It is intended to provide Uintah 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.

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All Utah and Uintah 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](http://www.rma.usda.gov).

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