Risk Management and Available Coverages

Adam N. Rabinowitz, Ph.D.
Assistant Professor and Extension Economist
Agricultural and Applied Economics
Risk Management

- When we buy car/homeowners insurance, do we wait for an accident/fire?
- What about insurance against natural disasters? Should we wait for a disaster?
- Sometimes we buy insurance/protection because government/industry requires us to do it.
- Sometimes we buy insurance/protection (or higher levels) because of our individual risk preferences.
- How much protection to purchase is driven by an individual’s tolerance for risk and their willingness and ability to assume risk.
Risk Management Decisions

• It’s important to think about:
  • Can I protect against natural disasters that might not be so widespread that government will create special assistance?
  • If there is protection (and there generally is) then:
    • Am I able and willing to bear the burden of this risk without that protection?
    • What other risk management strategies are available?
Crop Insurance

• WHIP Linkage Requirement: purchase NAP or Crop Insurance for next two available years.
• But … it’s a risk management tool available regardless of the requirement.
• The Federal Crop Insurance program is overseen by the USDA’s Risk Management Agency.
• Crop insurance covers over 100 crops and is constantly expanding, such as Pecan Trees in 2018.
Crop Insurance

• Can protect against
  • loss of yield
  • loss of revenue
  • loss of assets
  • loss of whole-farm revenue
• Coverage levels: catastrophic or “buy up”.
• Protection covers major loses like hurricanes and localized weather like hail.
Noninsured Crop Disaster Assistance Program (NAP)

• WHIP Linkage Requirement: purchase NAP or Crop Insurance for next two available years.

• But … it’s a risk management tool available regardless of the requirement.

• Noninsured Crop Disaster Assistance Program (NAP)
  • Financial assistance for producers of noninsurable crops to protect against low yields, loss of inventory, or prevented planting that occurs as a result of natural disasters.

• NAP is overseen by the USDA’s Farm Service Agency.
NAP Eligible Crops

- Commercially produced agricultural commodities for which crop insurance is not available.
  - Crops grown for food;
  - Crops planted and grown for livestock consumption, such as grain and forage crops, including native forage;
  - Crops grown for fiber, such as cotton and flax (except trees);
  - Crops grown in a controlled environment, such as mushrooms and floriculture;
  - Specialty crops, such as honey and maple sap;
  - Sea oats and sea grass;
  - Sweet sorghum and biomass sorghum;
  - Industrial crops, including crops used in manufacturing or grown as a feedstock for renewable biofuel, renewable electricity or biobased products;
  - Value loss crops, such as aquaculture, Christmas trees, ginseng, ornamental nursery and turf-grass sod; and
  - Seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP crop production.

- Specific questions about crop eligibility for NAP coverage should be directed to the FSA county office where farm records are maintained.
NAP Eligible Causes of Loss

• Eligible causes of loss include the following natural disasters:
  • Damaging weather, such as drought, freeze, hail, excessive moisture, excessive wind or hurricanes;
  • Adverse natural occurrences, such as earthquake or flood; and
  • Conditions related to damaging weather or adverse natural occurrences, such as excessive heat, plant disease, volcanic smog (VOG) or insect infestation.
Take home message…

Are you comfortable with your risk management strategy and the protection you have in the case of future disasters?