

# Risk Management and Available Coverages

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# 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 losses 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?