



2007 Crop Insurance Summary

Emery County



Sarah Drollette and E. Bruce Godfrey, Department of Applied Economics

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 Emery 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 Emery 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

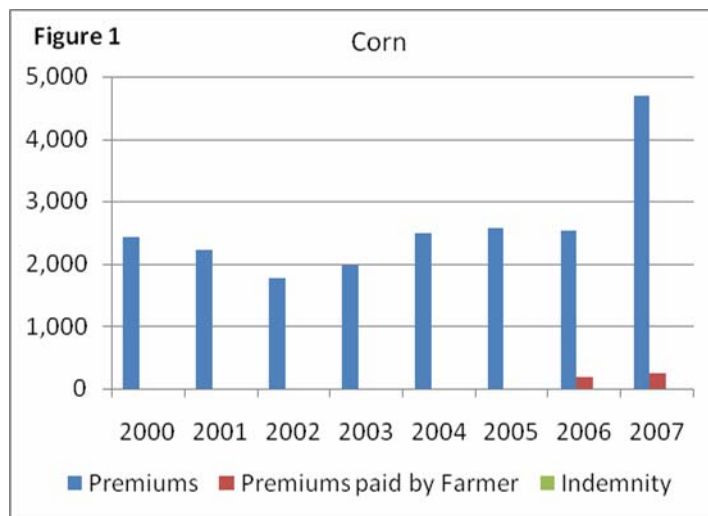
Commodity	Policies Sold	Insured Acres	Liabilities	Total Premium	Premium paid by Farmers	Indemnity	Loss Ratio
Corn	2	22	\$6,161	\$635	\$260	\$0	0.00
Total	2	22	\$6,161	\$635	\$260	\$0	0.00

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, the loss ratio for corn was less than 1.00 in 2007. Another important relationship is that between indemnity payments and the portion of premiums paid by farmers. A comparison of these two factors reveals that indemnity payments were also lower than the premium paid by farmers. The discussion below considers these and other factors relating to risk management for specific commodities grown in Emery County.

Corn

Corn is the only commodity for which crop insurance policies have been purchased over the past eight years in Emery County. While policy numbers remained unchanged, more acres were insured in

2007 than 2006. As expected, liabilities increased, as well as premiums as outlined in Figure 1. Despite the increase in insured acres and liabilities, no indemnity payments have been made over the past eight years and the loss ratio has consistently remained at zero. This suggests relatively lower risk of production loss associated with corn production in Emery County.



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

Utah State University is committed to providing an environment free from harassment and other form of illegal discrimination based on race, color, religion, sex, national origin, age (40 and older), disability, and veteran’s status. USU’s policy also prohibits discrimination on the basis of sexual orientation in employment and academic related practices and decisions. Utah State University employees and students cannot, because of race, color religion, sex, national origin, age, disability, or veteran’s status, refuse to hire; discharge; promote; demote; terminate; discriminate in compensation; or discriminate regarding terms, privileges, or conditions of employment, against any person otherwise qualified. Employees and students also cannot discriminate in the classroom, residence halls, or in on/off campus, USU-sponsored events and activities.

This publication is issued in furtherance of Cooperative Extension work. Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Noelle Cockett, Vice President and Director, Cooperative Extension Service, Utah State University.