



2007 Crop Insurance Summary

Weber 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 Weber 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 Weber 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

Table 1. 2007 Crop Insurance for Weber County

Commodity	Policies Sold	Insured Acres	Liabilities	Total Premium	Premium paid by Farmers	Indemnity	Loss Ratio
Corn	3	283	\$103,107	\$4,680	\$1,480	\$0	0.00
Nursery	1	0	\$2,221,259	\$22,213	\$0	\$0	0.00
Onions	1	55	\$48,280	\$2,782	\$0	\$0	0.00
Wheat	1	133	\$14,166	\$659	\$0	\$0	0.00
Total	6	471	\$2,386,812	\$30,334	\$1,480	\$0	0.00

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 is that between indemnity payments and the portion of premiums paid by farmers. A comparison of these two factors shows that indemnity payments were also lower than premiums paid by farmers for all commodities in 2007. The discussion below considers these and other factors relating to risk management for specific commodities grown in Weber County.

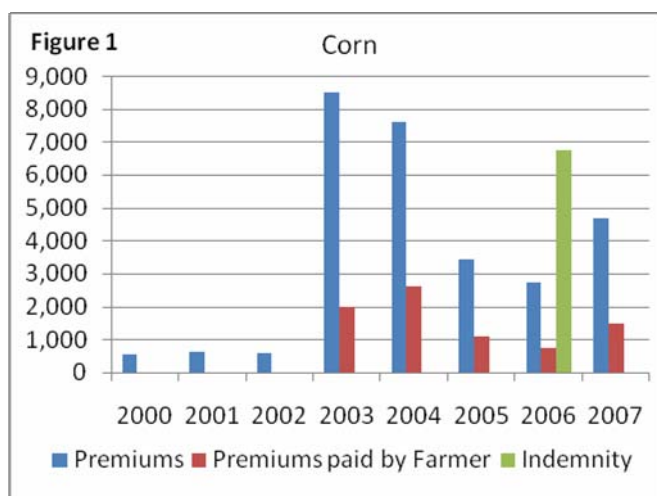
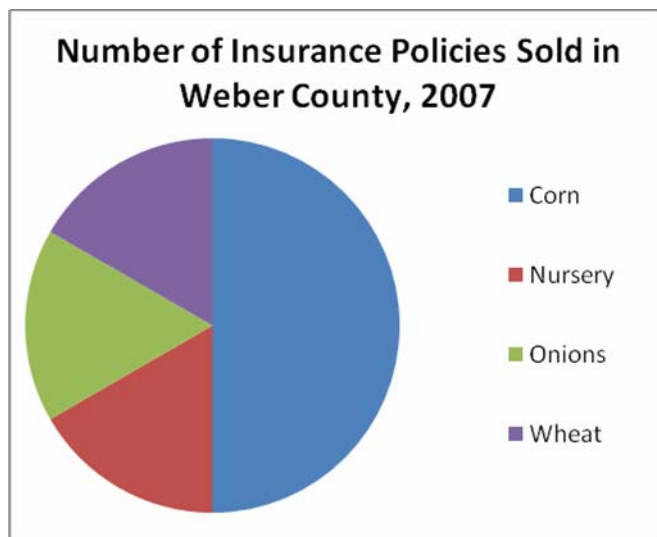
Corn

Corn policies accounted for 50% of total policies sold, 15% of total premiums, and received no indemnity payments in Weber County during 2007. 283 corn acres were insured in 2007— a 16% decrease relative to the previous year. Policy numbers, however, remained unchanged from 2006.

Two of the policies purchased last year were at the 50% coverage level and one was at the 65% level. These policy numbers and coverage levels have not changed since 2005. The entire decrease in insured acres occurred at the 50% level—insured acres at the 65% level actually increased. Despite the decrease in overall insured acreage, liabilities and premiums increased. Figure 1 shows the increase in premiums and premiums paid by farmers. No indemnity payments were made in 2007. Figure 1 also shows that indemnity payments have only been made one of the past eight years, suggesting relatively low overall risk associated with corn production in Weber County.

Nursery

Insurance policies for nursery have been purchased in Utah since 2003, but were purchased for the first time in Weber County last year. One policy was



purchased and accounted for over 73% of total premiums paid in Weber County during 2007. Similar to the rest of the state, the nursery policy was subsidized 100% so producers have paid nothing for the policies. No indemnity payments were made last year, suggesting relatively low risk associated with nursery production. However, since the premium cost to farmers has been nothing, risk of a loss greater than 50% can be mitigated at a very low cost to the producer.

Onions

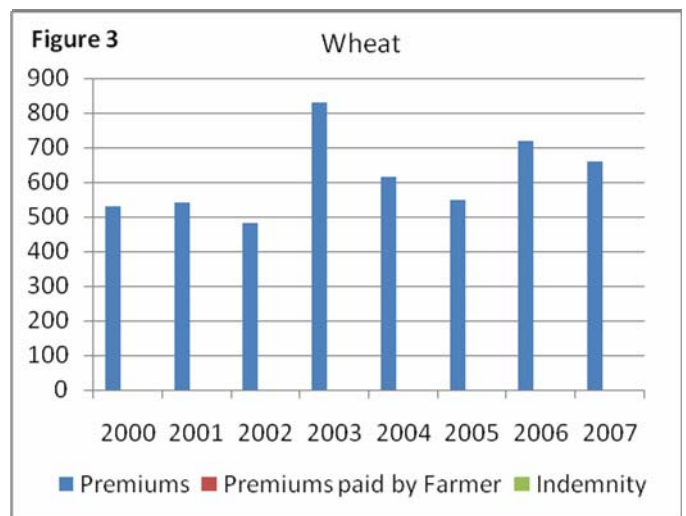
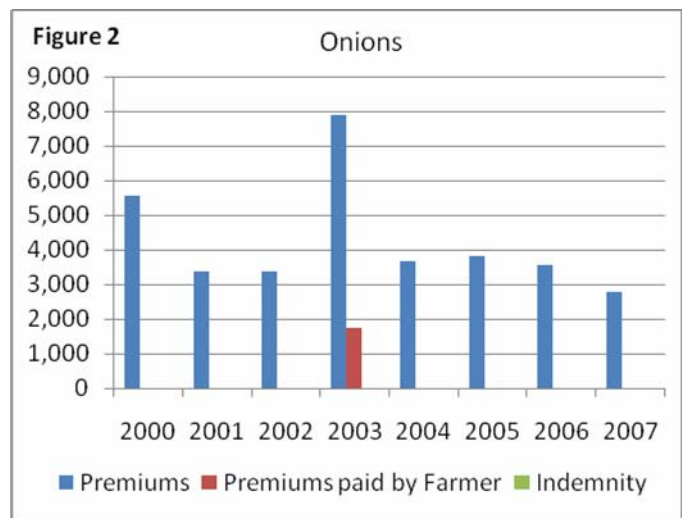
One insurance policy for onions was purchased in Weber County last year, accounting for 9% of total premiums and also receiving no indemnity payments. The number of total policies purchased remained unchanged from 2006 while total insured acreage declined slightly.

Policy numbers for onions have not changed since 2001 and the one policy purchased has remained at the 50% coverage level for the past four years. Liabilities and premiums decreased last year, and indemnity payments remained at zero. Figure 2 shows that no indemnity payments have been made historically and that farmers only paid a portion of the premium one year—the year corresponding with an increase in coverage level to 70%. Consistent lack of indemnity payments, even during the higher-coverage year, indicates relatively low risks associated with the production of onions in Weber County. Similar to nursery, however, with no premium cost to farmers at the 50% coverage level, some of the risks associated with onion production in Weber County can be mitigated at very low cost to the producer.

Wheat

One insurance policy for wheat was purchased in Weber County last year, accounting for 2% of total premiums and also receiving no indemnity payments. The number of total policies purchased for wheat also remained unchanged from 2006 and total insured acreage decreased 31%.

The one policy purchased in 2007 was at the 50% coverage level. While policy numbers have varied somewhat over the years, all policies purchased for wheat have been at the 50% coverage level since 2000. Liabilities and premiums both decreased last year given the decrease in insured acreage. Figure 3 shows that indemnity payments have remained at zero for the past eight years and that farmers have paid no premiums for those years. Given the 50%



coverage level, a lack of indemnity payments suggests there is little risk of a greater than 50% crop loss, and that risk can be mitigated at a very low cost to producers in Weber County.

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