

Availability of Crop Insurance on Cotton: 2004/05 Crop Year

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Effective risk management strategies are essential to surviving in the cotton industry. One tool available to help cotton producers manage risk is crop insurance. Many different insurance plans are currently available for cotton producers with each offering different types and levels of protection. Unfortunately, all of these types of insurance are not available in every state or county.

The following maps show the 2004/05 availability of each insurance plan available to cotton producers. Along with each map is a brief description of that particular type of insurance coverage. Certain states and counties have special practices and criteria for each type of insurance and those details should be obtained through the local extension office, the United States Department of Agriculture's Risk Management Agency (RMA) website at www.rma.usda.gov, or a crop insurance agent. This publication is intended to provide supplemental information for identifying crop insurance alternatives, not as a comprehensive guide to policy selection.

Basic Types of Coverage

Two general categories of insurance policies are available for cotton producers: yield coverage and revenue coverage. Yield coverage guarantees a certain yield per acre based on the farm's Actual Production History (APH), which is established with production records from up to 10 previous years. When a producer establishes a yield coverage policy, indemnity payments will occur if the yields experienced by producers fall below their chosen coverage level. For calculating the indemnity, the shortfall in production will be valued using a price set by the RMA.

Revenue coverage guarantees certain per acre revenue. A yield guarantee is used, as in yield insurance, and multiplied by the expected market price to compute the expected revenue. A coverage level is also chosen which, when multiplied by the expected revenue results in the insured liability. Indemnities are determined by subtracting revenue at harvest time from the liability if a loss occurs.¹ Revenue insurance

guards against low yields, low prices, or price/yield combinations that result in low revenue.

Yield Coverage Policies

Actual Production History (APH) Coverage

Actual Production History (APH) is yield-based insurance coverage that has been previously referred to as Multiple Peril Crop Insurance (MPCI). APH policies insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insect and disease. Producers first select the percentage of their APH average yield that they want to insure—from 50% to 85%. Next, the producer chooses what percentage of the RMA established price to insure—from 55% and 100%. This selection of a price level to insure is referred to as price election. If the harvest yield falls below the insured yield, the producer receives an indemnity payment equal to the difference in actual yield and insured yield multiplied by the producer-chosen price election.

Catastrophic Coverage (CAT) is a low level of APH coverage. CAT is set up to insure 50% of the producers yield at 55% of the RMA established price. CAT can be considered the base APH coverage policy and is available to the producer for zero premium and a \$100 processing fee for each crop insured. Processing fee exemptions are provided for small policyholders or producers with a coverage guarantee of less than \$500 for a crop. It does not include prevented planting and replant provisions that are included in higher coverage.

APH coverage and crop revenue coverage (CRC) are the most widely available types of coverage and are available in the same locations. Therefore, the APH and CRC availability maps are identical and are combined for convenience. Also, note that Extra Long Staple (ELS) cotton is considered an altogether different crop from upland cotton. Only APH coverage is currently available for ELS and is illustrated on a separate map.

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¹ It should be noted that for crop insurance purposes, the producer's revenue is calculated as total production times a harvest time price based on the cotton futures market. This calculated revenue will not necessarily be equal to the producer's actual revenue.

Figure 1. APH/CRC:
Southeastern Region

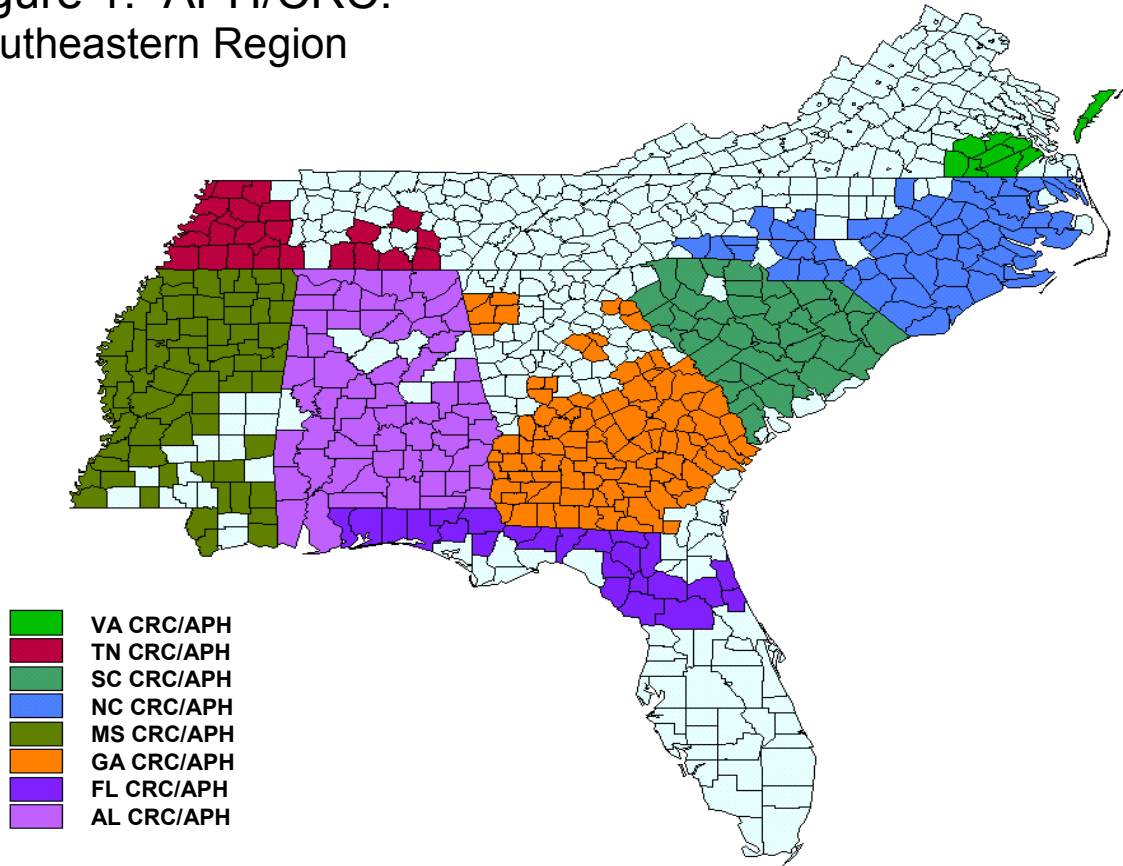


Figure 2. APH/CRC:
South Central Region

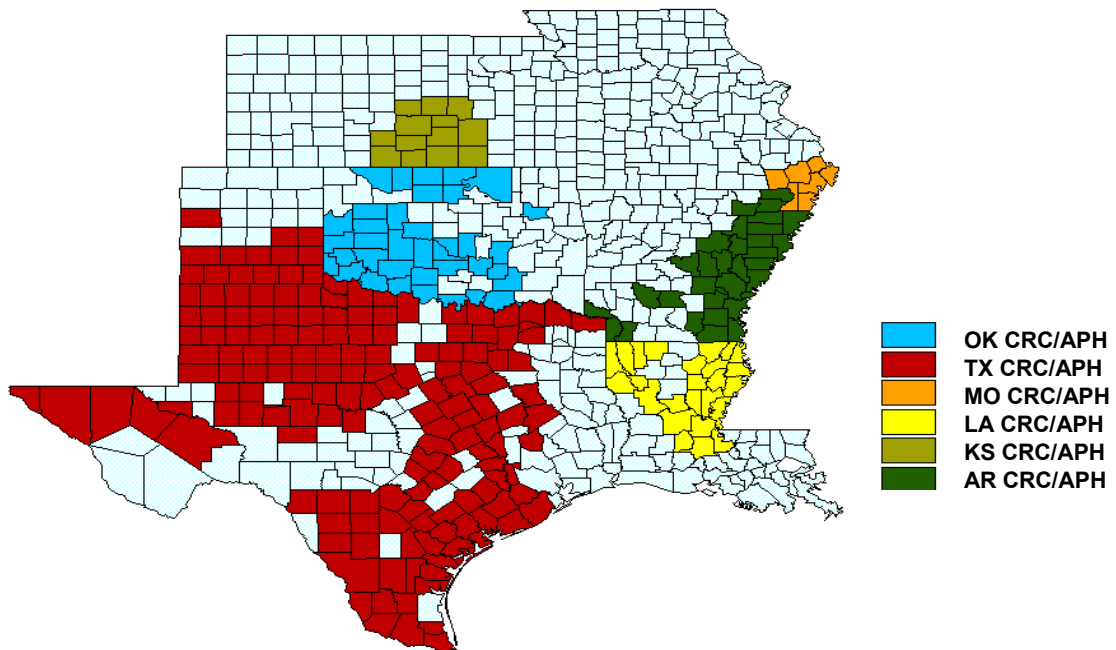


Figure 3. APH/CRC:
Western Region

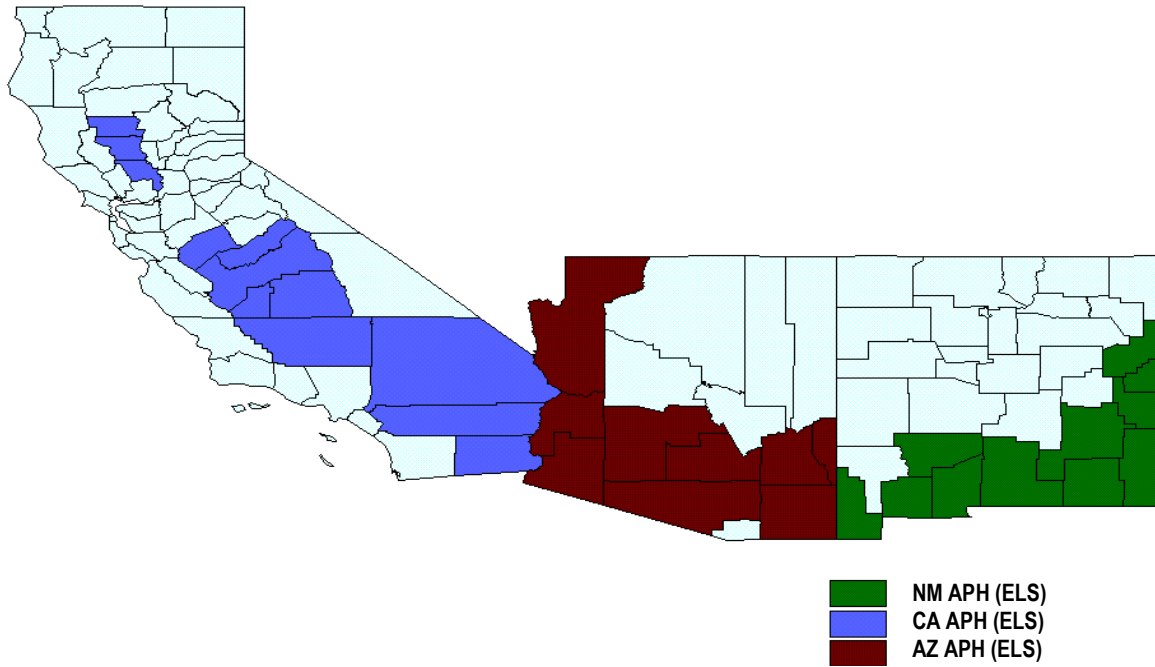
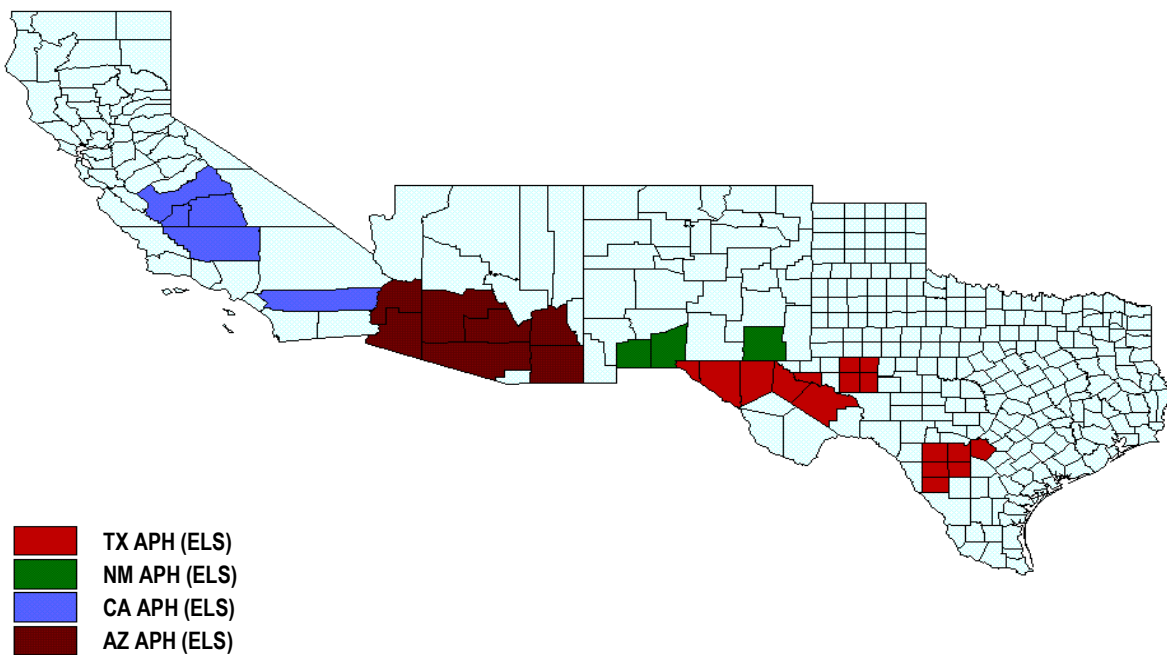


Figure 4. APH/CRC:
ELS Cotton

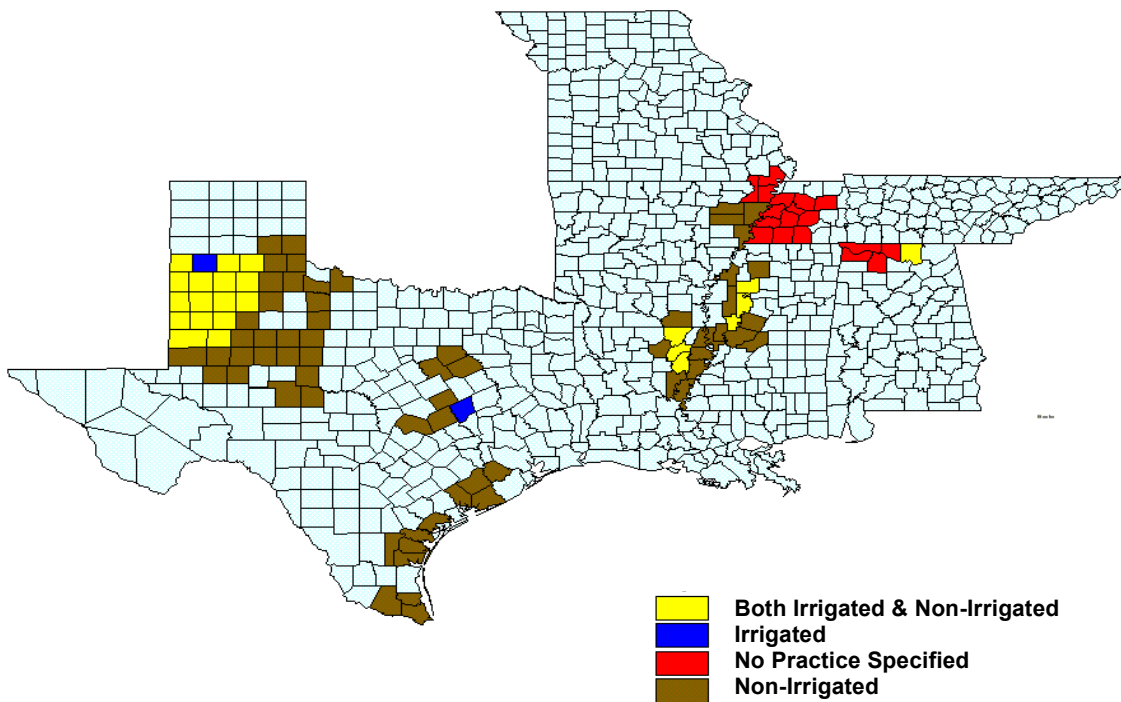


Group Risk Plan (GRP) Coverage

Group Risk Plan (GRP) coverage is another form of yield based insurance coverage. These policies use the National Agricultural Statistical Service (NASS) county yield as the basis for determining a loss. When using GRP coverage, the producers' actual yields are not used; rather the county average yield determines losses. A predicted county yield is developed from historical county yield data. The producer selects yield coverage from 70% to 90% of the county average and

then selects a price election to be insured, just as with APH coverage. When the average county yield falls below the producer-chosen county yield coverage times the predicted county yield, then an indemnity payment is paid to the producer. This indemnity is calculated as the difference between the insured and the actual county average yield multiplied by the producer's price election. Specific practices are illustrated in the map displaying GRP availability. Be sure to note the legend to benefit from the details included.

Figure 5. Group Risk Plan (GRP)



Revenue Coverage Policies

Revenue insurance coverage protects against variation in yield but additionally protects against changes in market prices. With revenue insurance, a level of revenue is guaranteed instead of a level of yield being guaranteed as in APH.

Crop Revenue Coverage (CRC)

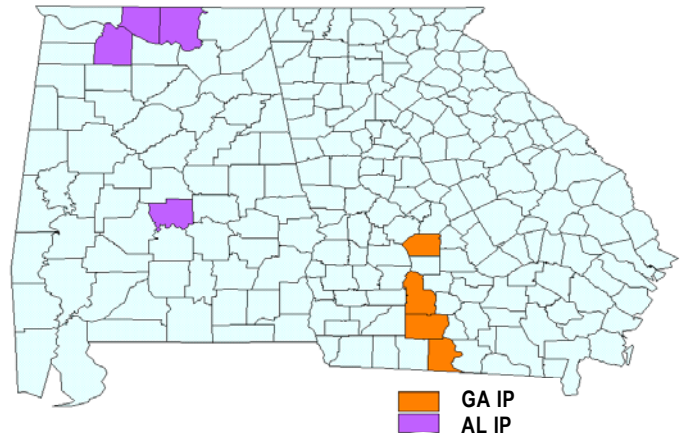
Crop Revenue Coverage (CRC) is a widely available form of revenue coverage. The first step in determining a level of revenue coverage is the same as with APH: the producer selects a percentage of APH to be insured. The next step is a bit different. Instead of the RMA price, the average price for the New York Board of

Trade (NYBOT) harvest month (December) cotton contract from January 15 to February 14 is used. This is referred to as the Base Price. Insured revenue is equal to the producer's APH multiplied by the chosen coverage multiplied by the Base Price. Should revenue fall below this revenue guarantee, an indemnity is paid to the producer for the difference between the revenue guarantee and the actual revenue received. With CRC, the revenue guarantee is permitted to change if futures prices rise. The revenue guarantee price is based on the higher of the Base Price or the November average price of the December NYBOT cotton contract (referred to as the Harvest Price).

Figure 6. Income Protection (IP)

Income Protection (IP) Coverage

Income Protection (IP) coverage is another form of revenue insurance coverage that is available in a handful of cotton producing counties. IP operates in a manner very similar to CRC; however, a major difference between IP and CRC is the price on which the revenue guarantee is based. With IP coverage, the sign up time futures price is used to determine the revenue guarantee. This guarantee is fixed. It is not permitted to change if futures prices rise between sign up and harvest.



Revenue Assurance (RA) Coverage

Revenue Assurance (RA) coverage, like IP and CRC, is a form of revenue insurance. RA has two options within its coverage: Base Price Option (BPO) or Harvest Price Option (HPO). Both forms of RA behave and are calculated in manners similar to previously mentioned types of coverage. RA with Base Price Option (BPO) is similar to IP coverage. The only significant design difference between RA (BPO) and IP is that IP does not allow basic and optional units to be insured. Similarly, RA Harvest Price Option is calculated the same as CRC. Several other small differences between RA (HPO) and CRC exist. These differences can be discussed with a crop insurance agent. RA for cotton was introduced in 2003 in only a select set of states and counties that will serve as a pilot program to determine effectiveness of RA in cotton production.

Figure 7. Revenue Assurance (RA)

