



Farm Credit Services
of America

EXECUTIVE WOMEN IN AGRICULTURE

- Mitigating Risk with Crop Insurance



Farm Credit Services
of America

YOUR ROLE IN RISK MANAGEMENT

- Identify what risks exist
- Mitigate risk in a way that best satisfies your objectives
- Invest in crop insurance
 - The primary safety net for agriculture
 - Customize a plan for your operation
 - Review and adjust every year

2



CONTROL YOUR RISKS TO BE PROFITABLE




- **Crop Insurance is the primary tool to minimize impact of risk- utilize it correctly**
- **Crop insurance is federally subsidized; Capture the benefit from the government**
- **Getting the correct risk management plan relies heavily on your business plan and the expertise of your agent**

YOUR 2014 CONSIDERATIONS




- **What do you need ~ Economic Considerations**
- **What's out there ~ Insurance Products**
- **How can you use Insurance ~ support your business plan and your financial position**

WHAT DOES 2014 LOOK LIKE?




Farm Credit Services
of America

- Commodity prices have fallen
- Input costs remain flat



TIGHTER MARGINS


- Weather patterns are volatile
- Farm Bill unsettled



GREATER RISK ENVIRONMENT

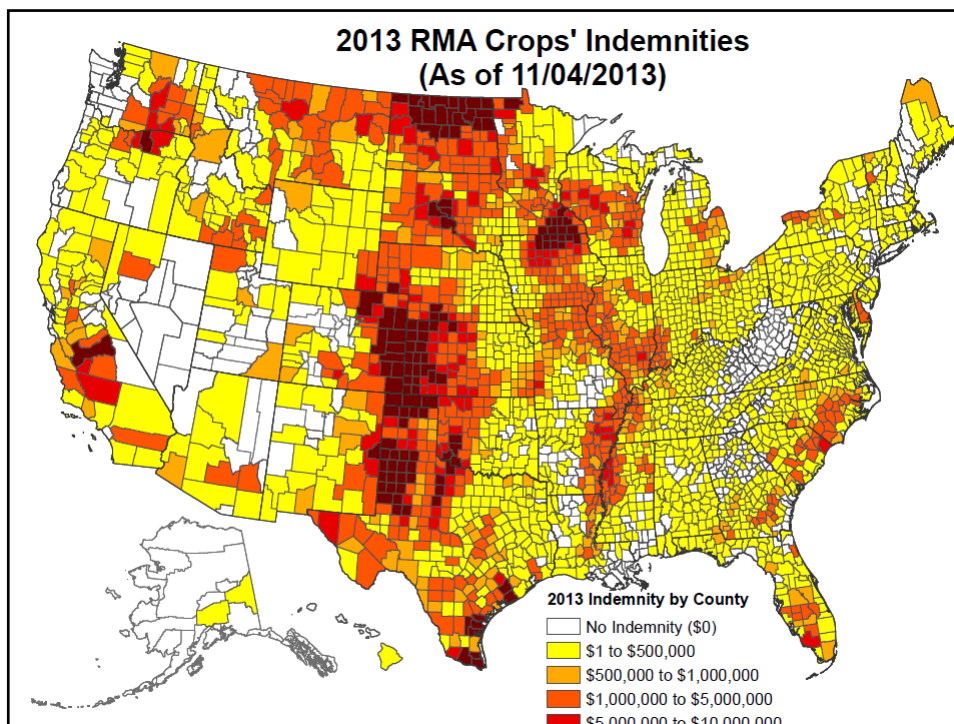
5

CHANGES AFFECTING YOUR INSURANCE COVERAGE



Farm Credit Services
of America

- Insurance products are altered yearly
- Land rents change
- Commodity prices change
- Land may have been added
- Structure of business may have changed
- Make sure you're covered at a level that gives you assurance
- Don't over-do it and pay more than you should




INSURANCE PRODUCTS

- Yield Protection
- Revenue Protection
- County Products



8



YIELD PROTECTION

- Yield Based Protection
- Coverage levels 50% - 85%

APH x Coverage Level = Yield Guarantee

- YP will use the projected (spring) price for figuring loss payments
- Replant & Prevent Plant coverage available
- Trend Adjustment Option available

9



REVENUE PROTECTION

- Yield and price based protection
- Coverage levels from 50% – 85%
- Projected Price (Spring) is set during February
- Harvest Price is set during October for Corn & Beans
- 200% Price Cap
- Replant and Prevent Plant coverage available
- Trend Adjustment Option Available

10

HIGHER HARVEST PRICES COMPARISON



- Approved Yield = 180 bu. Projected Price = \$5.65
- Coverage Level = 85% Harvest Price = \$7.50
- **With HPE actual revenue is calculated at the higher price

| | Revenue Protection | Yield Protection | Revenue HPE |
|------------------------------|-------------------------------|---|-----------------------------|
| Guarantee w/ Projected Price | 180 x 85% x \$5.65 \$865 | 180 x 85% = 153 bu | 180 x 85% x \$5.65 \$865 |
| Final Guarantee | 180 x 85% x \$7.50 \$1,150 | No Adjusted Guarantee | No Adjusted Guarantee |
| Actual Bushels = 145 | 145 bu x \$7.50 \$1,088 | 153 bu - 145 bu 8 bushel loss x \$5.65 | 145 bu x \$7.50 \$1,088 |
| Loss | \$62 | \$45 | No Loss |

11

LOWER HARVEST PRICE COMPARISON



- Approved Yield = 180 bu. Projected Price = \$5.65
- Coverage Level = 85% Harvest Price = \$4.39

| | Revenue Protection | Yield Protection | Revenue HPE |
|------------------------------|-----------------------------|--------------------------------------|-----------------------------|
| Guarantee w/ Projected Price | 180 x 85% x \$5.65 \$865 | 180 x 85% = 153 bu | 180 x 85% x \$5.65 \$865 |
| Final Guarantee | 180 x 85% x \$5.65 \$865 | No Adjusted Guarantee | No Adjusted Guarantee |
| Actual Bushels = 170 | 170 bu x \$4.39 \$746 | 153 bu - 170 bu 17 bu > Guarantee | 170 bu x \$4.39 \$746 |
| Loss | \$119 | No Loss | \$119 |

12

AREA RISK PROTECTION INSURANCE



- Area Risk Protection Insurance
 - County based yield and price protection
 - Coverage Levels from 70% - 90%
 - Protection Factor from .8-1.2

Expected Yield x Projected Price x Protection Factor =
Dollars of Insurance

- Spring Price is set in February for both corn & soybeans
- Harvest Price is set in October for both corn & soybeans
- No Prevented Plant or Replant coverage

13


WHAT CAN BE DONE TO REDUCE RISK EXPOSURE?



- Understand your expectations from crop insurance
- What do you need to continue to stay in business
- Look at different coverage levels
- Add the Trend Adjustment Option
- Evaluate Unit Structure Options

14

OPTIONAL UNITS VS. ENTERPRISE UNITS



- **Optional Units**
 - Every “Unit” has its own guarantee
 - Units are separated by section

- **Enterprise Units**
 - Combines all units by crop/county to develop one overall guarantee
 - 20/20 rule
 - Discounts depend on amount of acres & coverage level

INSURING YOUR FINANCIAL POSITION




Crop Hail coverage can make a difference

Complete loss on 200 acres due to hail damage

What is my risk bearing ability and how is my financial position affected?

16

CROP HAIL BENEFITS



Farm Credit Services
of America

January 1, 2013

- ❖ Working Capital = \$344,496
- Current Ratio = 2.35:1
- Owners Equity = \$2,923,938

Strong position, good risk bearing ability

January 1, 2014/No Hail

- ❖ Working Capital = \$176,496
- Current Ratio = 1.20:1
- Owners Equity = \$2,755,938


Decline in cash, more volatile to risk

January 1, 2014/MP & Hail

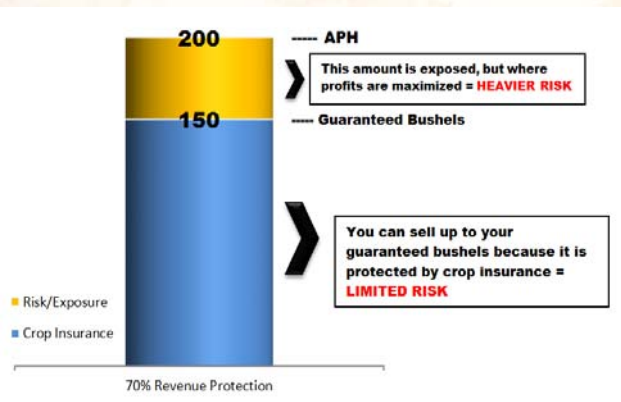
- ❖ Working Capital = \$376,496
- Current Ratio = 2.57:1
- Owners Equity = \$2,955,938

Increase in capital, equity, and capacity for risk.

Where is the RISK in grain marketing with crop insurance?



Farm Credit Services
of America



200 --- APH
This amount is exposed, but where profits are maximized = **HEAVIER RISK**

150 --- Guaranteed Bushels
You can sell up to your guaranteed bushels because it is protected by crop insurance = **LIMITED RISK**

■ Risk/Exposure
■ Crop Insurance

70% Revenue Protection

18

MARKETING AND CROP INSURANCE



- Options
 - Puts
 - Calls
- Basis
- Hedge to Arrive (HTA)
- Cash Sales/Forward Contracts

19

PROTECT YOUR RISKS



- Know Your Costs**
- Learn to use a Variety of Marketing Tools**
- Let Cash Flow & Profit Margins Drive Marketing**

MAKE SURE YOUR PLAN IS CUSTOMIZED



Take time with your agent to understand what you need to sustain your operation.

What is new this year?

What will benefit my operation?

Have a knowledgeable agent, but also educate yourself.

Supplemental Products

Ask questions

THE CHOICE IS YOURS



Crop Insurance is your safety net –

The only other safety net you have is your balance sheet.



Farm Credit Services
of America

ADDITIONAL RESOURCES

- www.rma.usda.gov
- www.nass.usda.gov
- www.cropinsuranceinamerica.org
- www.cropinsurancespecialists.com
- www.agdecisionmaker.org

23



Farm Credit Services
of America

QUESTIONS??

24



THANK YOU!!

- For questions or additional information –

Christa Wilson
Farm Credit Services of America
800-659-5141
Christa.Wilson@fcsamerica.com

25