Risk Management: Crop Yield and Revenue Insurance for Cotton

Presentation to
International Cotton Advisory Committee
Washington, DC
April 21, 2004

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Outline of Presentation

- How crop insurance works
- U.S. crop insurance program
- Cotton crop insurance
  - Types of coverage
  - Participation
  - Experience

How Crop Insurance Works

- Coverage established annually for growing season
- Coverage based on recent yield history, price forecasts or futures contracts
  - Producer chooses coverage level
- Multiple-peril insurance
- Premium rates based on coverage and risk
  - Premium subsidized
- Indemnity paid if yield or revenue at end of season is below guarantee

U.S. Crop Insurance Program

Recent History of Crop Insurance Program

Crops Insured

Total Premium, by Crop, 2001

-sugar beets
-grapes
-nursey
-cotton
-soybeans
-wheat

Total premium = $3.0 billion.
Cotton Crop Insurance

Crop Insurance Plans Available for Cotton

- Farm-Level Yield
  - Actual Production History
    - "Traditional crop insurance"
- Area Yield
  - Group Risk Plan
    - County yield
- Farm-Level Revenue
  - Revenue = Yield x Price
    - Yield: farm-level actual production history
    - Price is based on futures market price

Cotton Crop Insurance Participation

Cotton Acres Insured, by State

Cotton Acres Insured, by Type of Insurance

Cotton Insurance Coverage Prices

Insurancce coverage prices are for North Texas counties. Revenue insurance prices are spring prices. Farm price is U.S. season average price.
Coverage Levels Insured for Cotton

Proportion of Insured Acres, 2003

- About 75 percent of insured cotton acreage is insured at coverage levels below 70 percent

Weighted average coverage level 60.3 percent

Average Coverage Level, by State

Coverage Level Weighted by Acres Insured, 2003

- Texas
- Georgia
- Mississippi
- Arkansas
- North Carolina
- Alabama

Cotton Crop Insurance

Total Premiums and Indemnities

Premises and Indemnities, 1992 - 2002

- Total Premium
- Indemnity

Cotton Crop Insurance

Producer-Paid Premiums and Indemnities

Premises and Indemnities, 1992 - 2002

- Producer-Paid Premium
- Indemnity

Cotton Crop Insurance Loss Ratios, by Type of Insurance

Loss Ratios, 1992 - 2002

- All
- Yield--CAT
- Yield--Additional
- Revenue

Cotton Crop Insurance Loss Ratios

Indemnities/Premiums, 1992 - 2002

- Less than 1
- 1 - 1.5
- 1.5 - 2
- Greater than 2

Excludes counties with less than $100,000 in total premium.
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